CANADIAN PETROLEUM INDUSTRY

MONITORING SURVEY 1985

Canada

86-06097/

PETROLEUM MONITORING AGENCY

CANADA

CANADIAN PETROLEUM INDUSTRY

1985 MONITORING SURVEY

© Minister of Supply and Services Canada 1986

Cat. No. M27-22/1985-2E

ISBN 0-662-14863-0

Copies are available on request from
Communications Branch
Department of Energy, Mines and Resources
580 Booth Street
Ottawa, Ontario
K1A 0E4

Aussi disponible en français

Petroleum Monitoring Agency Canada
Chairman

Agence de surveillance du secteur pétrolier Canada
Président

The Honourable Marcel Masse
Minister of Energy, Mines and Resources
Ottawa, Ontario

Dear Minister:

I am pleased to submit the attached report which describes the financial performance of the oil and gas industry in Canada in 1985.

The report is based on data from 125 companies accounting for some 90 per cent of total revenues of the petroleum industry. Therefore, the data should reflect fairly the performance of the entire industry in Canada for the 12 months ending December 31, 1985.

Unfortunately, however, the generally encouraging results for 1985 provide very limited insight as to the industry's current health. The collapse of prices in the early months of 1986 and the resulting disastrous impact on employment and investment almost make redundant a report on 1985. With many companies struggling for survival, references to 1985 record cash flow of $11.4 billion and peak level upstream capital expenditures, 16 per cent higher than in 1984, seem inappropriate.

Yet an account of the industry's performance should be rendered and this report seeks to do so. The report for the first half of 1986 to be issued in the Fall of this year will be another story.

Respectfully submitted,

Ralph L. Gillen

July 14, 1986

Canada

580 Booth Street
Ottawa, Ontario K1A 0E4
Telephone (613) 995-7212
(613) 996-4444

580, rue Booth
Ottawa (Ontario) K1A 0E4
Téléphone (613) 995-7212
(613) 996-4444

1985 MONITORING SURVEY
TABLE OF CONTENTS

	Page
SUMMARY AND HIGHLIGHTS	i
1 - FINANCIAL PERFORMANCE	1-1
TOTAL OPERATIONS: NET INCOME AND CASH FLOW	1-1
UPSTREAM SEGMENT	1-7
DOWNSTREAM SEGMENT	1-8
OTHER CANADIAN OPERATIONS	1-8
FOREIGN OPERATIONS	1-8
2 - SOURCES OF FUNDS	2-1
INTERNAL SOURCES	2-2
EXTERNAL SOURCES	2-3
NET EXTERNAL SOURCES	2-4
3 - USES OF FUNDS	3-1
CAPITAL EXPENDITURES	3-2
REINVESTMENT RATIOS	3-4
DIVIDEND PAYMENTS	3-5
OTHER USES	3-5
4 - COMPARATIVE PERFORMANCE: PETROLEUM AND OTHER INDUSTRIES	4-1
NET INCOME COMPARISON	4-1
CAPITAL EXPENDITURES	4-2
5 - REVENUE SHARING: INDUSTRY AND GOVERNMENTS	5-1
INDUSTRY SHARE	5-3
PROVINCIAL SHARE	5-3
FEDERAL SHARE	5-3
6 - OWNERSHIP AND CONTROL TRENDS	6-1
7 - FIVE-YEAR OPERATING SUMMARY: 1981-1985	7-1
NOTEWORTHY TRENDS	7-2

TABLES AND CHARTS

Table		Page
1	Overview of Total Operations	1-1
2	Net Income by Sector and Segment	1-2
3	Rates of Return by Sector and Segment	1-3
4	Net Income by Company Group	1-5
5	Financial Performance by Segment	1-6
6	Summary -- Sources of Funds	2-1
7	Internal Cash Flow by Sector and Segment	2-2
8	PIP Grants by Area and Sector	2-3
9	Sources and Uses of Funds (Net)	2-4
10	Summary -- Uses of Funds	3-1
11	Capital Expenditures	3-2
12	Comparison of Capital Expenditures -- Petroleum Industry vs. All Other Non-Financial Industries	4-2
13	Revenue Sharing: Industry and Governments	5-2
14	Ownership and Control by Country and Sector	6-2
15	Five-Year Operating Summary: 1981-1985	7-1

Chart		
1	Comparison of Interest Charges with Income Before Taxes	1-4
2	Exploration Expenditures in Canada	3-3
3	Reinvestment Ratios	3-4
4	Dividend Payments Compared With Net Income	3-5
5	Comparison of Net Income -- Petroleum Industry vs. All Other Non-Financial Industries	4-1
6	Revenue Sharing: Industry and Governments	5-1
7	Canadian Ownership and Control of the Petroleum Industry	6-1

APPENDICES

		Page
A	**SUPPLEMENTARY DATA**	
1	The Year In Review	A-1
2	Petroleum and Natural Gas Supply and Demand Summary	A-2
3	Canadian Natural Gas Prices: 1974-1986	A-3
4	Canadian Crude Oil Prices: 1977-1986	A-4
5	Changes to the Petroleum Compensation Charge and the Gathering and Transportation Costs	A-5
6	Net Income by Sector and Segment	A-6
7	Rates of Return: Canadian Petroleum Industry	A-7
8	Comparison of Interest Charges with Income Before Taxes	A-8
9	PIP Grants by Area and Type of Expenditure	A-9
10	Well Completions and Metres Drilled in Canada	A-10
11	Gross Exploration Expenditures in Canada -- By Area	A-11
12	Ratio of Capital Expenditures to Internal Cash Flow	A-12
13	Dividend Payments	A-13
14	Rates of Return: Petroleum and Other Industries	A-14
15	Canadian Ownership and Control by Company Group and Category	A-15
B	**COMPLETE SURVEY RESULTS**	
1	Income and Expense Statement	B-1
2	Financial Performance for Main Business Segments	B-8
3	Sources and Uses of Funds	B-11
4	Upstream Canadian Capital Expenditures by Location	B-12
5	Capital Expenditures by Activity	B-13
6	Balance Sheet	B-14
7	Volume and Value of Production	B-15
8	Upstream Operating Costs and Royalties	B-16
9	Income and Expense Statement: 1981-1985	B-17
10	Sources and Uses of Funds: 1981-1985	B-18
C	**GLOSSARY OF TERMS**	C-1
D	**PMA TERMS OF REFERENCE**	D-1

NEW AND NOTABLE

Some new information is presented in the 1985 Monitoring Survey and the Report should be read with a number of qualifications.

NEW

- Rates of return on average capital employed for downstream activities are presented in Chapter 1. This additional information is provided to answer requests from representatives of integrated companies.

- A table showing Canadian natural gas prices for 1974 to 1986 to date is presented as Appendix A-3.

- In response to users' expressed interest, Chapter 2 has been expanded to include a table showing external sources of funds net of related uses; this provides a measure for the total industry's net draw on other sectors of the Canadian economy, page 2-4.

NOTABLE

- Net income is reported inclusive of extraordinary gains and losses both for PMA and Statistics Canada data. This recognizes that there are differing views by individual companies in designating a transaction as extraordinary; it also takes into account the Agency's need to report comprehensively on the industry's financial performance without adjustment of the data submitted to it.

- Many numbers in the body of the report are rounded to improve readability. Percentage changes, however, are calculated on the basis of detailed figures shown in Appendix B.

- The Western Accord deregulated crude oil prices and took steps towards market pricing of natural gas; it ended the Petroleum Incentives Program early in1986 (with some grandfathering through 1987) and phases out the Petroleum and Natural Gas Revenue Tax (PGRT) by 1989, exempting new production from it in the interim; it also permits PGRT liability to be offset by some unused investment write-offs under the Income Tax Act. On June 24, 1985, Alberta announced substantial changes to its royalty and incentives system for oil and gas production.

- Olympia and York acquired Gulf Canada and, subsequently, part of the downstream operations was sold to Petro-Canada in 1985 and the remainder to Ultramar effective January 1986. Therefore, throughout this report the activities of Gulf Canada have been reclassified from 'foreign-controlled integrated' to 'Canadian-controlled senior oil and gas producer'.

Continued

- Comparisons between 1984 and 1985 results are heavily affected by the results of a number of large Canadian-controlled companies

  - extraordinary write-offs of $1 billion occurred in 1985 but not in 1984
  - extraordinary gains of almost $150 million occurred in 1984 but not in 1985
  - in 1984, reported working capital increases reflected a $3 billion reduction of short-term debt due to its reclassification to long-term
  - current income taxes for 1984 included the deferral of approximately $250 million in previously accrued taxes.

  Since these results by a number of companies have such a large and distorting impact on certain aspects of the industry's performance, they are emphasized here rather than noted repeatedly in the text.

- Information regarding several aspects of the industry was not available at time of publication. These aspects were the industry's capital structure, income tax position, its international flows of funds, and its research and development expenditures. This information will be presented in the 1986 Monitoring Survey, First Six Months.

* * * * * * * *

Continued

LATEST DEVELOPMENTS

Since, as always, the Survey is published some months after the year to which it refers, its relevance may be affected by developments taking place during its publication period.

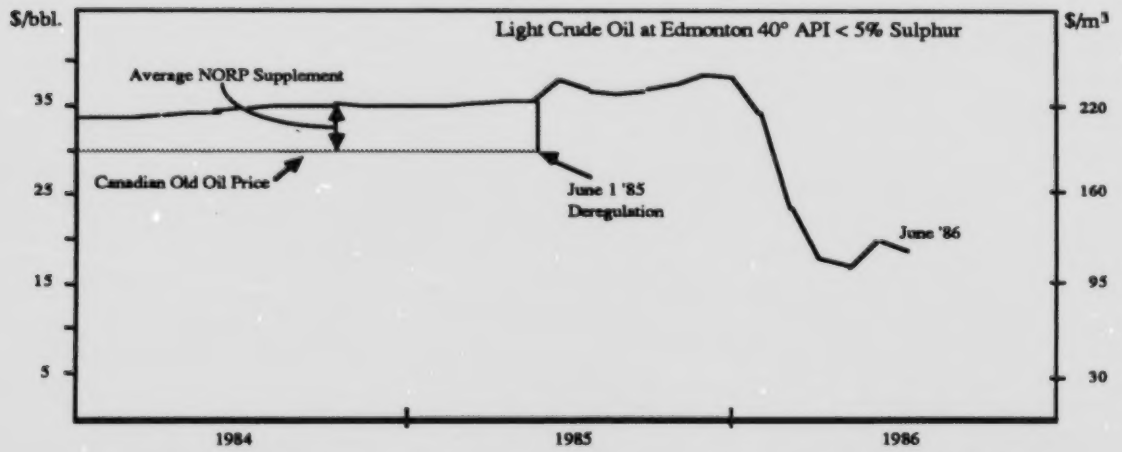
During the latter months of 1985, international crude oil prices weakened and began their downward plunge, declining from US $27 per/bbl at the end of 1985 to just under US $10 per/bbl in the spot market for May 1986 deliveries.

Canadian crude oil prices followed essentially the same pattern, falling from a high of almost $40 per/bbl in December 1985 to a low of $16 per/bbl in April 1986.

This price collapse was quickly followed by a series of announcements of drilling and exploration program curtailments and plant and equipment capital expenditure reductions -- with corresponding staff layoffs in all segments of the industry.

For example, by mid-June 1986, the number of active drilling rigs had declined to 100 compared to 360 a year earlier, its lowest level in more than a decade. Indicated industry profits and cash flow for the first quarter 1986 were lower, 30% and 25% respectively, compared to the first quarter 1985.

CANADIAN PRODUCER PRICES



In response, the federal government increased the small producers' PGRT credit from $500,000 to $2 million, and PGRT was removed from Suncor and Syncrude. Also, the deduction allowed corporations and individuals in computing revenue under that Act was increased to $40,000 from $10,000.

Provincial governments also moved to help upstream activities. The Alberta Royalty Tax Credit was raised from 75% to 95% of royalties payable to a maximum of $3 million. One-half of exploration costs incurred on Alberta Crown lands may now be credited against Crown royalties. Similarly, Saskatchewan revised its royalty rates and related provisions. Most recently, Alberta announced development drilling, well servicing and geophysical activity assistance programs.

SUMMARY AND HIGHLIGHTS

FINANCIAL PERFORMANCE

TOTAL OPERATIONS

- Revenues and Profits: Industry revenues rose 5% to $66.3 billion in 1985 compared with 1984 due to higher crude oil prices and increased oil production. Net income from total operations declined 22% to $2.9 billion, due to higher asset write-offs, particularly in upstream operations. Industry cash flow from operations, unaffected by write-offs, increased 8% to $11.4 billion, a gain largely attributable to:

  ✔ increased oil production and higher prices for crude oil

  ✔ lower payments of production taxes and royalties

  ✔ lower interest charges.

- Canadian versus Foreign-controlled Company Results: Net income for the foreign-controlled sector declined 4% ($90 million) to $2.1 billion. Improvements in upstream operations were more than offset by declines in all other business segments.

  Net income for Canadian-controlled companies fell $720 million (48%) to $765 million. This resulted from the write-offs of upstream assets and gains in extraordinary earnings in 1984 from the sale of foreign assets.

- Rates of Return: Large asset write-downs reduced rates of return. The rate of return on shareholders' equity of the petroleum industry declined to 7.2% in 1985 from 9.9% in 1984. Return on capital employed was 5% in 1985, down from 6.4%, with upstream and downstream returns having declined to 7% and 1.6% respectively.

SUMMARY AND HIGHLIGHTS (Continued)

UPSTREAM OPERATIONS

- Upstream revenues rose 5% to $27.9 billion due to higher wellhead prices and increased oil production. Upstream net income, affected by asset write-offs, declined 4% to $3 billion. Partly offsetting the impact of the write-offs were lower production taxes, royalties and interest charges. Upstream cash flow rose 13% ($1.1 billion) to $9.5 billion in 1985.

DOWNSTREAM OPERATIONS

- Downstream revenues increased 7% to $34 billion as higher costs flowed through to product prices. However, overall cost increases exceeded the revenue improvements and, combined with extraordinary write-offs, downstream net income declined $180 million to $230 million for 1985. Profit margins declined fractionally in tandem with refinery capacity utilization which dropped one percentage point to 73% in 1985.

SOURCES OF FUNDS

Total funds available to the industry in 1985 amounted to $24.3 billion vs. $21.6 billion in 1984.

INTERNAL CASH FLOW

- Internal cash flow from total operations rose 8% to $11.4 billion in 1985 with upstream operations (up 13%) providing the impetus. The cash flow for downstream remained unchanged while that for all other business segments declined.

EXTERNAL SOURCES OF FUNDS

- External sources of funds rose from $11 billion in 1984 to $12.9 billion in 1985. New long-term debt went up 70% to $2.1 billion and new share issues 10% to $2 billion. Large capital gains included in 'other sources of funds' in 1984 that did not recur in 1985 partly offset the increases.

- PIP Grants: Reporting companies estimated PIP grants at $1.6 billion -- down 10% over 1984 -- reflecting a slowing of exploration activity on the Canada Lands.

SUMMARY AND HIGHLIGHTS (Continued)

USES OF FUNDS

CAPITAL EXPENDITURES

- Total Capital Expenditures: In 1985 these totalled $12 billion, up 15% from 1984. An increase in upstream expenditures to a record level of $9.3 billion and higher outlays abroad were in part offset by reduced downstream and other capital expenditures.

- Exploration Expenditures in Canada: Outlays in 1985 at $4.9 billion were down 1% from 1984. An 18% decline in spending on Canada Lands was only partly offset by a 13% increase in exploration activity in the provinces. Exploration expenditures on Canada Lands accounted for 39% of the total in 1985 compared with 47% for the comparable period in 1984. Foreign-controlled companies increased their outlays by 15% in contrast to a 7% decline for Canadian-controlled companies.

- Downstream Expenditures: Downstream outlays dropped 11% to $940 million in 1985 vs. 1984. Higher expenditures on marketing outlets and pipelines were more than offset by declines in spending on refineries and petrochemical plants.

REINVESTMENT RATIOS

- Net capital expenditures absorbed 87% of the industry's overall cash flow in 1985, up 6 percentage points over 1984. Upstream capital expenditures equalled 77% of internal cash flow from upstream operations, up 5 percentage points from 1984. While the upstream reinvestment ratio for Canadian-controlled firms declined 4 percentage points to 75% in 1985, that for foreign-controlled companies rose from 65% in 1984 to 79% in 1985.

DIVIDENDS

- Dividends were up 33% to $1.8 billion in 1985. Foreign-controlled firms raised dividend payments 34% to $960 million while payments by Canadian-controlled companies were up 32% to $830 million. Payout overall rose from 36% for 1984 to 62% of net income in 1985 -- partly due to the impact of extraordinary losses on 1985 net income.

SUMMARY AND HIGHLIGHTS (Continued)

COMPARATIVE PERFORMANCE: PETROLEUM AND OTHER INDUSTRIES

NET INCOME

- According to Statistics Canada data, the petroleum industry's net income on Canadian operations -- exclusive of Crown corporation results -- increased 3% in 1985 compared with a decrease of 1% for all other non-financial industries in Canada. The petroleum industry's net income accounted for 22% of all non-financial industries' income vs. 21% in 1984. Return on shareholders' equity for the petroleum industry was 9.4%, slightly lower than that for all other non-financial industries (9.8%).

CAPITAL EXPENDITURES

- The petroleum industry's capital expenditures in 1985 increased 12% over 1984. Capital expenditures of other non-financial industries increased 15% giving the petroleum industry a share of 30% in 1985, down half a percentage point from 1984.

REVENUE SHARING: INDUSTRY AND GOVERNMENTS

Total revenues available for sharing increased $1.2 billion to $24.4 billion in 1985. The industry and federal government gained from the increase, while the provincial governments' revenue remained basically unchanged. The federal government's share increased from 15% in 1984 to 16% in 1985 -- primarily due to a reduced deficit in the Petroleum Compensation Charge account. The industry's share remained virtually unchanged at 54% and the provincial governments' share declined to 30% from 32%.

SUMMARY AND HIGHLIGHTS (Concluded)

OWNERSHIP AND CONTROL TRENDS

Canadian ownership of the petroleum industry based on upstream revenues, rose in 1985 to 48% against 42.5% at the end of 1984. Canadian control of upstream revenues increased 7.9 percentage points to 48.4%. Canadian ownership and control of total petroleum-related revenues -- upstream plus downstream -- were up 7.9 and 10.8 percentage points in 1985 over 1984 to reach 48.3% and 42.8% respectively.

FIVE-YEAR OPERATING SUMMARY: 1981-1985

Noteworthy trends:

1. Revenues rose by 17% to $66.1 billion from 1981 through 1985 -- growing at an average annual rate of 4%, slightly less than the rate of inflation.

2. Net income bottomed out in 1983 at 2.4% of revenues, reaching a peak of 5.8% in 1984 and declining to 4.4% of 1985 revenues.

3. Internal cash flow increased sharply as a percentage of revenue -- from a low of 12% in 1982 to about 17% in the last two years.

4. Capital expenditures peaked in 1981 and 1982, largely driven by heavy expenditures downstream and abroad. Expenditures in 1985 nearly matched these records.

5. Dividend payout ranged from a high of 84% of earnings in 1983 to 36% in 1984 and averaged 62% in 1985. Dividend payments increased steadily from 1981 to 1985 at an average annual rate of 11% per year.

1 - FINANCIAL PERFORMANCE

TOTAL OPERATIONS: NET INCOME AND CASH FLOW

Increased production of crude oil and higher producer prices for oil more than offset revenue declines in other Canadian operations and resulted in a 5% rise in total industry revenues to $66.3 billion in 1985.(1)

Net income(2) from total operations decreased $810 million (22%) to $2.9 billion. The decline was due to extraordinary asset write-offs of $1.2 billion (mainly upstream and other Canadian operations) in 1985 in contrast to extraordinary gains of $135 million (mainly foreign operations) reported in 1984. Net income of the upstream segment declined $135 million (4%) to $3 billion; downstream profits declined $180 million (44%) to $230 million in 1985. Other Canadian operations and foreign activities recorded reductions in net income of $330 million and $165 million respectively. Net income for total operations but prior to extraordinary items rose 14% to $4.1 billion (Appendix B-1).

Total industry cash flow from operations, unaffected by asset write-offs, rose $810 million (8%) to $11.4 billion. A 13% increase in upstream cash flow exceeded declines in all other business segments. This gain stemmed from:

- increased oil production and higher prices for crude oil;
- lower payments for production taxes and lower royalties; and
- lower interest charges.

Current taxes rose 10% to $3.1 billion partly offsetting the improvements.

Table 1. OVERVIEW OF TOTAL OPERATIONS(a)

		1984	1985	Increase (Decrease)	
		$ billions			(%)
TOTAL REVENUES		$63.2	$66.3	$3.1	5
less:	Operating Costs	8.4	9.6	1.2	14
	Interest Expenses	2.8	2.4	(0.4)	(13)
	Non-income Taxes & Royalties	10.7	10.9	0.2	2
	Other Cash Expenses	27.8	28.8	1.0	4
	Income Taxes - Federal	2.3	2.6	0.3	13
	- Provincial	0.6	0.6	-	-
INTERNAL CASH FLOW		10.6	11.4	0.8	8
less:	Write-offs(b)	5.0	5.6	0.6	13
	Deferred Taxes	2.0	1.7	(0.3)	(17)
Unusual Gains (Losses)		0.1	(1.2)	(1.3)	-
NET INCOME(2)		3.7	2.9	(0.8)	(22)

NOTES: (a) Figures may not add due to rounding. See Table 5 (p. 1-6) for detail by operating segment.

(b) The components of 'write-offs' are non-cash charges and exploration and development expenditures charged to current operations.

---

(1) A glossary of technical terms is included as Appendix C.
(2) Net income is after taxes and extraordinary items.

a. Net Income by Sector

Net income for the petroleum industry as a whole decreased 22% ($810 million) to $2.9 billion in 1985. While net income for foreign-controlled companies decreased 4% to $2.1 billion, that for the Canadian-controlled sector fell 48% ($720 million) to $765 million in 1985.

The sharp decline in net income for Canadian-controlled companies resulted from asset write-offs largely in the upstream segment. The impact of these extraordinary write-offs on the year-over-year comparison was amplified by the fact that 1984 results included unusual capital gains of $205 million (mainly in the foreign segment). All segments of the Canadian-controlled sector reported profit declines. However, cash flow for the sector overall -- unaffected by write-offs -- rose 8% to $6.1 billion and net income after taxes but before extraordinary items was up 31% to $1.7 billion (Appendix B-6).

Net income for foreign-controlled companies declined 4% ($90 million) to $2.1 billion in 1985. Improvements in upstream operations, principally due to higher crude oil prices, lower production taxes, royalties and current taxes were not sufficient to offset declines in other business segments. Downstream profits declined because of weakness in petrochemicals, while 'other Canadian operations' which include corporate expenses reported a loss of $210 million in 1985, up from $110 million in 1984, mainly due to an increase of $145 million in extraordinary losses. The greater 1985 losses stem from inventory write-downs taken in accordance with accounting principles for the treatment of unrealized profits. These adjustments, affecting integrated companies only, were treated as corporate expense items and flowed from the June 1, 1985 deregulation of crude oil prices. Cash flow of foreign-controlled companies was up 7% to $5.3 billion.

Table 2. NET INCOME BY SECTOR AND SEGMENT

	1984	1985	Increase (Decrease)	
	$ billions			(%)
CANADIAN-CONTROLLED COMPANIES				
Upstream	$1.1	$0.8	$(0.3)	(22)
Downstream	0.1	-	(0.1)	(82)
Other[a]	0.3	(0.1)	(0.4)	-
Total Canadian-Controlled	1.5	0.8	(0.7)	(48)
FOREIGN-CONTROLLED COMPANIES				
Upstream	2.1	2.2	0.1	5
Downstream	0.3	0.2	(0.1)	(22)
Other[a]	(0.1)	(0.2)	(0.1)	-
Total Foreign-Controlled	2.2	2.1	(0.1)	(4)
TOTAL INDUSTRY	3.7	2.9	(0.8)	(22)

NOTE: (a) Comprises net income generated by foreign activities and other Canadian operations. For more detail see Appendices A-6 and B-Schedule 1.

b. Rates of Return[1]

Return On Equity

The rate of return on shareholders' equity for the total Canadian petroleum industry was 7.2% in 1985 against 9.9% for 1984. The decrease was largely due to the write-off of assets in 1985, particularly for Canadian-controlled companies, giving them a return on shareholders' equity of 3.7% compared with 10.9% for foreign-controlled companies.

Return On Capital Employed

In 1985, the rate of return on the capital employed by the Canadian petroleum industry amounted to 5% vs. 6.4% for 1984. Large asset write-offs reduced net income significantly thereby lowering the rate of return. Upstream return on capital employed declined to 7% from 7.7% in 1984, while downstream results slipped from 3% to 1.6% in 1985 (see Appendix A-7 for five-year analysis).

Foreign-controlled companies realized a 7.6% return on capital employed for total operations, down from 8.4% in 1984. The upstream segment of this sector had a return on capital of 10.8% in 1985 vs. 11.4% in 1984.

The Canadian-controlled sector's rate of return on capital employed was 3.3% in 1985, down from 5.2% reported in 1984. The decline stems from asset write-offs which were most common among Canadian-controlled companies. The rate of return on upstream capital employed was 4.5% vs. 5.4% in 1984.

Table 3. RATES OF RETURN BY SECTOR AND SEGMENT

	Canadian-Controlled		Foreign-Controlled		Total Industry	
	1984	1985	1984	1985	1984	1985
	(%)					
RETURN ON EQUITY						
Total Operations	7.6	3.7	12.4	10.9	9.9	7.2
Canadian Operations	7.0	3.6	12.4	11.0	9.6	7.3
RETURN ON CAPITAL EMPLOYED						
Total Operations	5.2	3.3	8.4	7.6	6.4	5.0
Canadian Operations	5.1	3.4	8.5	7.8	6.5	5.2
Upstream Operations	5.4	4.5	11.4	10.8	7.7	7.0
Downstream Operations[a]	1.9	(0 9)	3.6	3.0	3.0	1.6

NOTE: (a) Downstream, in this table, represents oil products operations only, i.e. it excludes petrochemical and other downstream operations.

---

(1) Rate of return calculations here are derived from data received directly from companies reporting to the PMA. Commentary on the comparability of these rates with those generated using Statistics Canada data can be found in Appendix A-14.

c. Interest Coverage

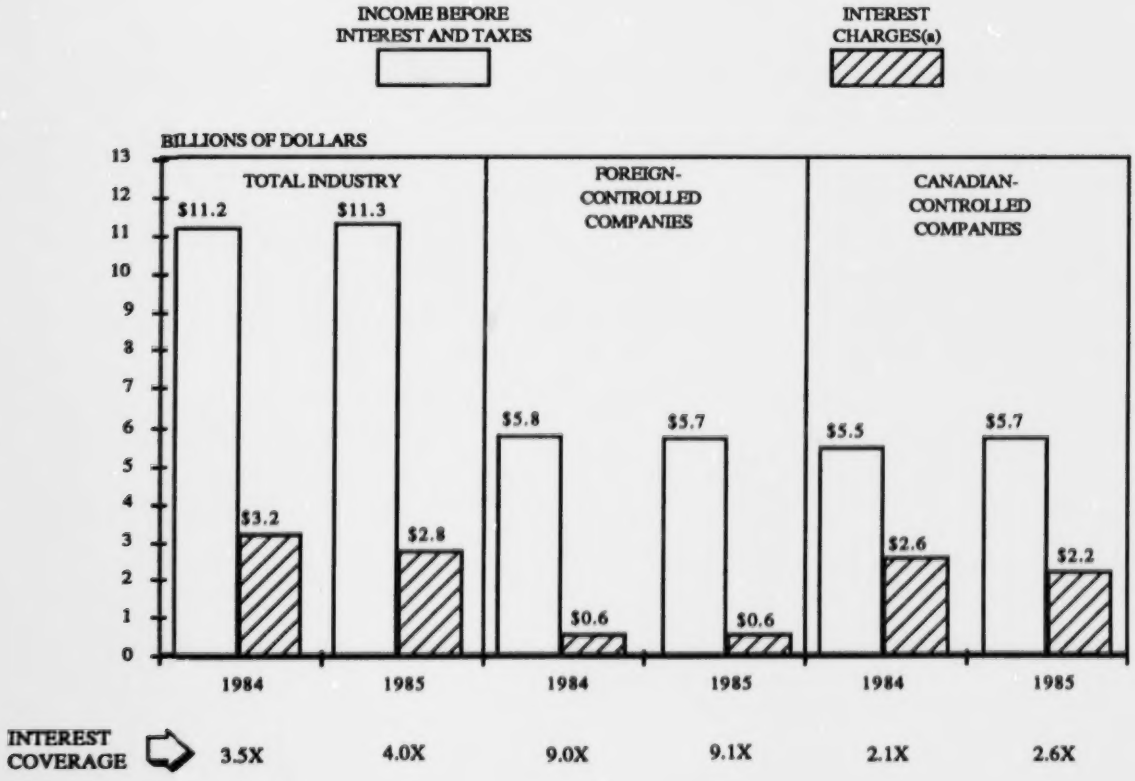
Income before taxes, extraordinary items and expensed interest was 4 times total interest charges, both capitalized and expensed, up from 3.5 times in 1984. This improvement is the result of the growth in upstream income and the decline in overall interest charges.

Canadian-controlled companies recorded an 18% increase in income before taxes largely as a result of higher upstream revenues coupled with lower production taxes and lower interest charges. The conversion of short-term debt to long-term debt and the replacement of some debt by equity together with lower interest rates reduced interest charges by $390 million. Thus the interest coverage increased to 2.6 times in 1985 from 2.1 times in 1984.

Foreign-controlled companies' interest coverage remained relatively unchanged at 9.1 times. While income before taxes improved for upstream activities, the decline for all other operations more than offset this improvement.

This analysis of interest charges relates to total industry activity since there is neither consistency nor uniformity in the way companies allocate interest expenses among the various business segments -- upstream, downstream, other Canadian and foreign.

Chart 1. COMPARISON OF INTEREST CHARGES WITH INCOME BEFORE TAXES



NOTE: (a) Interest charges shown include both expensed and capitalized amounts. See Appendix A-8 for more detail.

d. Net Income by Company Group

Integrateds and Refiners

A total of 13 companies grouped in the category 'integrateds and refiners' make up the bulk of the downstream segment in terms of revenues and 32% of upstream operations. Net income for the group declined 65% to $605 million from $1.8 billion in 1984, reflecting the large write-offs of upstream assets ($680 million) and extraordinary losses in other Canadian operations of $245 million. Accordingly, upstream net income was down to $685 million in 1985 from $1.3 billion in 1984. While upstream accounted for about half of this group's net income decline, the other business segments shared almost equally the remainder of the net income fall.

Oil and Gas Producers

The 112 'oil and gas producers' are involved almost exclusively with upstream operations. Higher prices resulting from the Western Accord led to a 6% rise in gross upstream revenues to $18.9 billion (Appendix B-1). The group's net income increased 17% to $2.3 billion in 1985. Producers' upstream net income rose 25% to $2.3 billion largely as a result of declines in production taxes, royalties and interest charges. Producers' foreign activities generated an increase in net income of $40 million on the basis of an extraordinary gain of $95 million in 1985. In contrast, downstream and other Canadian operations showed profit declines totalling $160 million.

Table 4. NET INCOME BY COMPANY GROUP

	1984	1985	Increase (Decrease)	
	$ billions			(%)
INTEGRATEDS AND REFINERS				
Upstream	$1.3	$0.7	$(0.6)	(46)
Downstream	0.3	0.1	(0.2)	(53)
Other[a]	0.2	(0.2)	(0.4)	-
Total Integrateds and Refiners	1.8	0.6	(1.2)	(65)
OIL AND GAS PRODUCERS				
Upstream	1.8	2.3	0.5	25
Downstream	0.1	0.1	-	(23)
Other[a]	-	(0.1)	(0.1)	-
Total Producers	2.0	2.3	0.3	17
TOTAL INDUSTRY	3.7	2.9	(0.8)	(22)

NOTE: (a) Comprises net income generated by foreign activities and other Canadian operations. For more detail see Appendix B-Schedule 1.

Table 5. FINANCIAL PERFORMANCE BY SEGMENT[a]

		UPSTREAM				DOWNSTREAM			
		1984	1985	Increase (Decrease)		1984	1985	Increase (Decrease)	
		--- $ billions ---			(%)	--- $ billions ---			(%)
TOTAL REVENUES		$26.6	$27.9	$1.3	5	$31.9	$34.0	$2.1	7
less:	Operating Costs	4.3	4.8	0.5	12	2.8	3.2	0.4	17
	Interest	1.7	1.6	(0.1)	(6)	0.3	0.1	(0.2)	(51)
	Royalties, Taxes	6.4	6.3	(0.1)	(2)	1.9	2.4	0.5	22
	PGRT, IORT, NGGLT	2.2	2.0	(0.2)	(9)	-	-	-	-
	Other Expenses	4.1	4.5	0.4	10	26.4	27.9	1.5	6
INCOME BEFORE TAXES		7.8	8.7	0.9	11	0.5	0.4	(0.1)	(15)
less:	Current Taxes	2.9	3.1	0.2	5	-	0.2	0.2	-
	Deferred Taxes	1.8	1.7	(0.1)	(4)	0.1	(0.1)	(0.2)	-
Unusual Gains (Losses)		-	(0.9)	(0.9)	-	-	(0.1)	(0.1)	-
NET INCOME		3.1	3.0	(0.1)	(4)	0.4	0.2	(0.2)	(44)
INTERNAL CASH FLOW[b]		8.4	9.5	1.1	13	1.1	1.1	-	-

		OTHER CANADIAN OPERATIONS[c]				FOREIGN OPERATIONS			
TOTAL REVENUES		3.1	2.6	(0.5)	(16)	1.7	1.7	-	3
less:	Operating Costs	0.8	0.9	0.1	16	0.5	0.6	0.1	13
	Interest	0.7	0.6	(0.1)	(9)	0.2	0.1	(0.1)	(27)
	Other Expenses	1.7	1.3	(0.4)	(21)	0.8	1.0	0.2	19
INCOME BEFORE TAXES		(0.1)	(0.3)	(0.2)	-	0.2	0.1	(0.1)	(53)
less:	Current Taxes	(0.2)	(0.2)	-	-	0.2	0.1	(0.1)	(17)
	Deferred Taxes	0.1	-	(0.1)	(64)	0.1	-	(0.1)	(36)
Unusual Gains (Losses)		(0.1)	(0.3)	(0.2)	-	0.2	0.1	(0.1)	(50)
NET INCOME		-	(0.3)	(0.3)	-	0.2	-	(0.2)	(82)
INTERNAL CASH FLOW[b]		0.5	0.3	(0.2)	(46)	0.6	0.6	-	(4)

NOTES: (a) Percentage changes reflect unrounded data as shown in Appendix B, Schedule 1.

(b) Internal cash flow is the sum of net income, deferred taxes, non-cash charges of depreciation, depletion and amortization and exploration and development expenditures written off in the reporting period.

(c) Includes pipelines, drilling services, coal and uranium mining, metal mining, and other non-petroleum related activities.

UPSTREAM SEGMENT

Revenues from upstream operations rose 5% to $27.9 billion due to higher wellhead prices[1] and a 2% increase in crude oil production (Appendix A-2). A marked increase in crude oil exports (up 78%) coupled with a 3% increase in the domestic consumption of refined products promoted higher production. The increase in crude oil production resulted from the start-up of the Norman Wells expansion, the beginning of commercial outputs at Cold Lake and Wolf Lake, and a number of enhanced oil recovery projects. Production would have been higher except for insufficient capacity in the interprovincial pipeline system. Natural gas production (up 9%) was buoyed by higher export sales (up 22%) and increased domestic consumption (up 4%). However, prices for natural gas declined in 1985 compared to 1984. An increase in international sulphur sales together with higher prices[2] was a significant factor for the improved revenue picture of several companies.

Upstream net income decreased 4% or $135 million in 1985 to $3 billion due to asset write-offs of almost $900 million. Extraordinary write-offs within upstream occurred after a reassessment of resource potential, particulary in the frontier regions, taking into account the decline in world oil prices and development prospects.

Net income prior to extraordinary write-offs rose 25% to $3.9 billion because of a decrease in production taxes,[3] provincial royalties and interest charges. These improvements were partly offset by higher non-cash charges such as depletion (up 18%) and dry hole charges (up 16%), and by a 12% rise in operating costs largely due to enhanced oil recovery projects. Some companies' income was adversely affected by the shut-in of crude oil because of prorationing in Alberta.

Canadian-controlled companies reported a 22% ($235 million) decrease in upstream net income, largely because of asset write-offs during the year. Foreign-controlled companies' upstream profits rose 5%, up $100 million. Total cash flow for the upstream segment, unaffected by write-offs, rose 13% ($1.1 billion) to $9.5 billion.

---

(1) A key element of the Western Accord was the deregulation of Canadian crude oil pricing and marketing, effective June 1, 1985. Under the previous system of administered oil prices 'old oil' production received a wellhead price of $187.22 per m^3 ($29.75 per barrel) during 1984 and the first five months of 1985. In addition, gradually increasing production from expanded categories of qualifying oil was granted the higher NORP price (more than 50% of Canadian production at the time of deregulation). The price of natural gas at the Alberta border was $2.79 per gigajoule ($2.99 per MCF) during 1984 and 1985. The average price of gas exported to the United States dropped from $4.80 per gigajoule during 1984 to $4.07 per gigajoule in 1985, mainly due to pressure on prices from the U.S. spot market.

(2) The Vancouver base contract price improved from US $105 per tonne in 1984 (second half) to US $125 per tonne in the first half of 1985 and US $135 per tonne in the second half of 1985.

(3) The reduction in production taxes was due to lower payments for production from specified enhanced oil recovery wells and the arrangements of the Western Accord which exempt from PGRT new production brought on stream after April 1, 1985.

DOWNSTREAM SEGMENT

Downstream revenues rose 7% to $34 billion. This increase was, however, not quite sufficient to cover higher crude oil costs, sales taxes, operating expenses and write-offs. Accordingly, refining and marketing profit margins (1) decreased slightly to 1.3% in 1985 in tandem with a small decline in average refinery capacity utilization from 74% in 1984 to 73% in 1985. Further, extraordinary write-offs of $130 million and weakness in petrochemical operations contributed to a $180 million decline in downstream profits to $230 million for 1985.

Net income was also adversely affected by increased charges for depreciation, write-offs and current taxes, with the latter rising from $5 million in 1984 to $150 million in 1985. Cash flow for the segment remained unchanged at $1 billion.

OTHER CANADIAN OPERATIONS

This business segment, which includes corporate income and expenses, recorded a loss of $340 million in 1985 compared with a loss of $10 million in 1984. The higher loss reflects the closure of operations in 1984, the disposition of shares in non-petroleum related activities and the $155 million rise in extraordinary losses from $95 million in 1984 to $250 million in 1985 due to profit deferrals.

As a corporate consolidation entry, several integrated companies deferred a portion of their crude oil profits because they no longer sell all their production to arm's length purchasers such as the Alberta Petroleum Marketing Commission. The deferred profits will be taken into income when the related refined products are sold to consumers. This one time adjustment was a consequence of the June 1, 1985 deregulation of crude oil marketing. From now on, the provision for deferred profits will change only as inventories or the crude cost component of finished products rise or fall.

Internal cash flow declined from $490 million in 1984 to $265 million in 1985.

As noted in previous Monitoring Surveys, many companies treat financing activities, and thus interest expense, as a corporate function -- by definition included in 'other Canadian operations'. Although a larger number of companies now allocate interest charges to other segments, 25% of the industry's total interest expenses remained charged to this segment which accounts for only 4% of total industry revenues.

FOREIGN OPERATIONS

Net income on foreign operations declined to $35 million in 1985 from $200 million in the prior year. The absence in 1985 of a $190 million extraordinary gain realized in 1984 was the main reason for the profit reduction.

---

(1) Profit margin is defined as income before tax as a percentage of total revenues.

2 - SOURCES OF FUNDS

Total funds available to the industry in 1985 amounted to $24.3 billion vs. $21.6 billion in 1984. Funds generated by operations increased 8% to $11.4 billion, while funds from external sources rose 17% to $12.9 billion. Increased borrowing, equity issues and increased draw-downs of working capital more than offset reductions in PIP and similar grants and in all other sources of funds (see page 2-3 for further detail).

Table 6. SUMMARY -- SOURCES OF FUNDS[a]

	1984	1985	Increase (Decrease)		Share of Total 1984	Share of Total 1985
	$ billions			(%)	(%)	
INTERNAL SOURCES						
Net Income Before Unusual Items	$3.6	$4.1	$0.5	14	17	17
Non-cash Items[b]	7.0	7.3	0.3	4	32	30
Total Internal Sources	10.6	11.4	0.8	8	49	47
EXTERNAL SOURCES[1]						
New Long-term Debt[c]	1.2	2.1	0.9	70	6	9
New Equity[c]	1.8	2.0	0.2	10	8	8
Working Capital Decrease[c]	0.9	2.8	1.9	201	4	12
PIP and Other Incentives	1.9	1.9	-	(1)	9	8
All Other Sources[d]	5.2	4.1	(1.1)	(20)	24	17
Total External Sources	11.0	12.9	1.9	17	51	53
TOTAL SOURCES OF FUNDS	21.6	24.3	2.7	12	100	100

NOTES: (a) Appendix B, Schedule 2 shows detail.

(b) Includes deferred taxes, exploration and development expenditures written off against current income, and other non-cash items (depreciation, depletion and amortization) that do not require a financial outlay in the reporting period.

(c) Represents the net amount of new long-term debt, equity, or funds from drawing down working capital by those companies that reported obtaining funds from these sources. Data from companies reporting reductions in new long-term debt and in equity, and an increase in working capital, are shown as 'Uses of Funds' in Table 10 (p. 3-1).

(d) Includes unusual gains; unusual losses are included with 'All Other Uses' in Table 10.

---

(1) Net of refinancing operations and other related transactions, external sources' contribution to the funds available to the industry is less significant than indicated here, see Table 9, page 2-4.

INTERNAL SOURCES

Petroleum industry internal cash flow rose 8% or $810 million to $11.4 billion in 1985. The improvement reflects higher crude oil prices, increased production of conventional and synthetic oil, lower interest charges, production taxes and royalties. The upstream segment recorded an increase of 13% to $9.5 billion. The cash flow for downstream remained unchanged while that for other Canadian operations and foreign activities declined.

Canadian-controlled companies' internal cash flow increased 8% or $460 million to $6.1 billion, largely because of lower interest charges and lower production taxes. Foreign-controlled firms' cash flow was up 7% or $350 million to $5.3 billion as they benefitted from lower royalties, production taxes and current taxes.

Table 7. INTERNAL CASH FLOW BY SECTOR AND SEGMENT[a]

	1984	1985	Increase (Decrease)	
	$ billions			(%)
CANADIAN-CONTROLLED COMPANIES				
Upstream	$4.4	$5.0	$0.6	13
Downstream	0.4	0.5	0.1	5
Other[b]	0.8	0.6	(0.2)	(20)
Total Canadian-Controlled	5.6	6.1	0.5	8
FOREIGN-CONTROLLED COMPANIES				
Upstream	4.0	4.5	0.5	12
Downstream	0.7	0.6	(0.1)	(4)
Other[b]	0.2	0.2	-	(33)
Total Foreign-Controlled	5.0	5.3	0.3	7
TOTAL INDUSTRY				
Upstream	8.4	9.5	1.1	13
Downstream	1.1	1.1	-	-
Other[b]	1.1	0.8	(0.3)	(23)
TOTAL INDUSTRY	10.6	11.4	0.8	8

NOTES: (a) See Appendix B, Schedule 1 for more details.

(b) Comprises internal cash flow generated by foreign activities and other Canadian operations.

EXTERNAL SOURCES

Funds from external sources rose from $11 billion in 1984 to $12.9 billion in 1985 reflecting the industry's increased financing requirements. New long-term debt increased 70% to $2.1 billion in 1985 and new share issues rose 10% to $2 billion. Partly offsetting these increases was a decline in 'other sources of funds', particularly the absence of extraordinary gains. The draw-down of working capital in 1985 was $2.8 billion vs. $900 million in 1984.

A $180 million decrease in funds resulted from reduced Petroleum Incentives Program (PIP) grants. Petroleum companies estimated PIP grants at $1.6 billion, down 10% from 1984, reflecting a slowing of exploration activity on the Canada Lands. Canadian-controlled companies received 95% of these grants. About 23% of total PIP grants were administered and paid by the Government of Alberta, the remainder by the federal government.

Table 8. PIP GRANTS BY AREA AND SECTOR

	Canadian-Controlled		Foreign-Controlled		Total	
	1984	1985	1984	1985	1984	1985
	$ millions					
PROVINCES						
British Columbia	$ 22	$ 22	-	-	$ 22	$ 22
Alberta	279	359	-	-	279	359
Other	49	61	-	-	49	61
Total Provinces	350	443	-	-	350	443
CANADA LANDS						
Beaufort Sea	525	431	4	17	529	447
Labrador East	419	410	19	18	438	428
Atlantic Shelf South	299	156	22	14	321	170
Other	133	99	3	4	136	103
Total Canada Lands	1376	1095	48	53	1424	1148
TOTAL CANADA	1726	1538	48	53	1773	1591

NOTE: Appendix A-9 provides additional detail.

NET EXTERNAL SOURCES[1]

The petroleum industry's net sources of funds declined 18% ($2.4 billion) to $11.1 billion in 1985. While internal cash flow rose in 1985, external sources net of related uses declined from $2.9 billion to a negative $300 million, i.e. the industry provided funds to the rest of the economy. Additions to long-term debt and equity were more than offset by the outflow of funds due to the purchase of assets outside the petroleum sector in Canada.

In 1985, the industry used more funds for net capital outlays and dividend payments -- up 16% and 33% respectively. The net draw-down of working capital was $700 million in 1985 compared with a $3.6 billion build-up of working capital in 1984.

Table 9. SOURCES AND USES OF FUNDS (NET)

	1984	1985	Increase (Decrease)	
	$ billions			(%)
INTERNAL CASH FLOW	$10.6	$11.4	$0.8	8
External Sources/Uses				
New Long-term Debt, Net of Repayments	(1.4)	0.3	1.7	-
New Equity, Net of Repurchases	1.7	1.4	(0.3)	(14)
All Other Sources, Net of Other Uses	2.6	(2.0)	(4.6)	-
Net External Sources	2.9	(0.3)	(3.2)	-
	13.5	11.1	(2.4)	(18)
DISCRETIONARY USES				
Net Capital Expenditures	8.6	10.0	1.4	16
Dividend Payments	1.3	1.8	0.5	33
Working Capital Increases	3.6	(0.7)	(4.3)	-
	13.5	11.1	(2.4)	(18)
'NET EXTERNAL SOURCES' AS A PERCENTAGE OF TOTAL SOURCES				
	(%)			
Total Industry	21.4	(3.0)		
Integrateds and Refiners	5.2	(11.3)		
Oil and Gas Producers	30.7	4.5		

(1) Sources and uses of funds for an individual company are reported to PMA on a net basis. For example, a company raising and repaying debt would submit only the net amount. The same applies to changes in equity, working capital and other sources and uses of funds. For the industry as a whole, PMA adds the net amounts as reported so that one may distinguish at the aggregate level between new long-term debt and repayment of debt, and working capital increases vs. working capital decreases. However, to provide a measure of the enitre industry's net draw of funds from other sectors of the economy, shown here is a consolidated picture of sources and uses of funds based on the netting of all external transactions.

3 - USES OF FUNDS

The disposition of funds for all purposes increased 12% to $24.3 billion in 1985 vs. 1984. Capital expenditures, by far the largest component of 'uses of funds', rose 15% to $12 billion.

The category 'all other uses' which increased $3.3 billion for 1985 over 1984 represents funds used for purchases of plant and property from other corporations, and for corporate acquisitions. Dividend payments increased $440 million in 1985 to $1.8 billion. Long-term debt repayment declined to $1.9 billion in 1985 from $2.6 billion in 1984, partly offsetting the increases in uses of funds noted.

Table 10. SUMMARY -- USES OF FUNDS

	1984	1985	Increase (Decrease)		Share of Total 1984	Share of Total 1985
	----- $ billions -----			(%)	(%)	
CAPITAL EXPENDITURES						
Expenditures in Canada[a]	$9.8	$10.9	$1.1	11	45	45
Expenditures Abroad	0.7	1.1	0.4	60	3	4
Total Capital Outlays	10.5	12.0	1.5	15	48	49
OTHER USES OF FUNDS						
Repayment of Long-term Debt[b]	2.6	1.9	(0.7)	(27)	12	8
Repurchase of Equity[b]	0.2	0.6	0.4	252	1	2
Working Capital Increase[b]	4.5	2.1	(2.4)	(52)	21	9
Dividends	1.3	1.8	0.5	33	6	7
All Other Uses[c]	2.6	5.9	3.3	128	12	24
Total Other Uses	11.2	12.3	1.1	10	52	51
TOTAL ALL USES	21.6	24.3	2.7	12	100	100

NOTES: (a) Expenditures are before reductions for PIP grants and other grants.

(b) Represents the net application of funds to repurchase equity, repay long-term debt, or to build up working capital by those companies that reported using funds for these purposes. Data from companies reporting increases in long-term debt and in equity, and net reductions in working capital, are shown as 'Sources of Funds' in Table 6 (p.2-1).

(c) Mainly funds for acquisitions of plant and property purchased from other corporations and for corporate takeovers. Includes unusual losses; unusual gains are included with 'All Other Sources' in Table 6.

CAPITAL EXPENDITURES

Total capital expenditures in 1985 increased 15% or $1.5 billion to $12 billion as an 11% rise in expenditures in Canada coincided with a 60% gain in expenditures abroad. The greater rate of increase in expenditures abroad brought their share of total capital expenditures to 9% from 6%. Capital expenditures in Canada of $10.9 billion exceeded the previous record set in 1982 of $10.5 billion. Upstream expenditures remained as the largest component of total capital outlays, accounting for 77% of the total against 76% in 1984. Lower downstream and other capital expenditures partly offset increases elsewhere.

Table 11. CAPITAL EXPENDITURES[a]

	1984	1985	Increase (Decrease)		Share of Total 1984	Share of Total 1985
	----- $ billions -----			(%)	(%)	
UPSTREAM						
Exploration	$5.0	$4.9	$(0.1)	(1)	48	41
Development	1.1	1.5	0.4	35	11	13
Production	1.3	1.7	0.4	34	12	14
Non-conventional[b]	0.6	1.1	0.5	93	6	9
Total Upstream[c]	8.0	9.3	1.3	16	76	77
Downstream	1.1	0.9	(0.2)	(11)	10	8
Energy Mining	0.2	0.2	-	3	2	2
All Other	0.6	0.5	(0.1)	(14)	6	4
TOTAL CANADIAN	9.8	10.9	1.1	11	94	91
EXPENDITURES ABROAD	0.7	1.1	0.4	60	6	9
TOTAL EXPENDITURES	10.5	12.0	1.5	15	100	100
Memo Item: Upstream Capital Expenditures (Net of PIP Grants and other)	6.1	7.3	1.2	20		

NOTES: (a) More detail is presented in Appendix B, Schedules 3 and 4.

(b) Includes oil sands and non-conventional heavy oil projects.

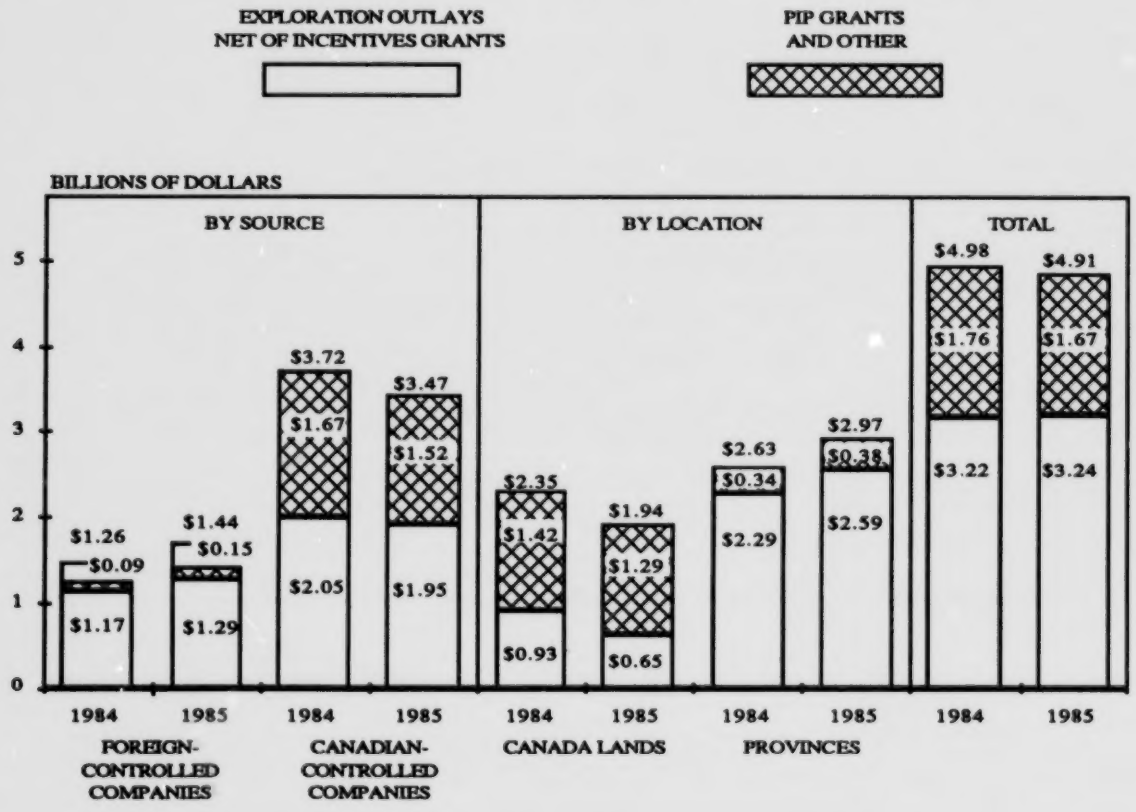
(c) Includes PIP grants.

Upstream: Upstream capital expenditures rose 16% to a record level of $9.3 billion in 1985. Development and production expenditures rose 35% and 34% respectively, and oil sands spending increased 93% while total exploration spending decreased 1%. Net of PIP and similar incentive grants, upstream outlays by foreign-controlled companies rose 36% and those of Canadian-controlled companies increased 8%. Despite their lower rate of increase, Canadian-controlled companies maintained their spending at a higher level than foreign-controlled firms.

Exploration expenditures in the provinces rose 13% to $3 billion and decreased 18% to $1.9 billion on the Canada Lands. This produced the decrease of 1% in total exploration expenditures to $4.9 billion. Exploration expenditures on Canada Lands accounted for 39% of the total compared with 47% in 1984. The largest decreases in spending on Canada Lands occurred in Atlantic Shelf South ($160 million) and in the Beaufort Sea ($110 million) (Appendix A-11).

Exploration outlays by foreign-controlled companies were up 15% in 1985. Showing the effect of the reductions in Canada Lands activity, Canadian-controlled companies -- accounting for 85% of frontier activity and over 70% of total exploration expenditures -- reported an overall spending decline of 7%.

Chart 2. EXPLORATION EXPENDITURES IN CANADA



Downstream Expenditures: In 1985 they decreased 11% to $940 million vs. $1.1 billion in 1984. Expenditures on marketing outlets and pipelines rose but only partly offset the decline in spending on refineries and petrochemical plants.

Energy Mining and All Other: These expenditures declined 10% to $690 million. They include outlays for drilling ships, caissons, and drilling rigs, with part of the total amount representing capitalized interest charges related to pre-start-up project expenditures.

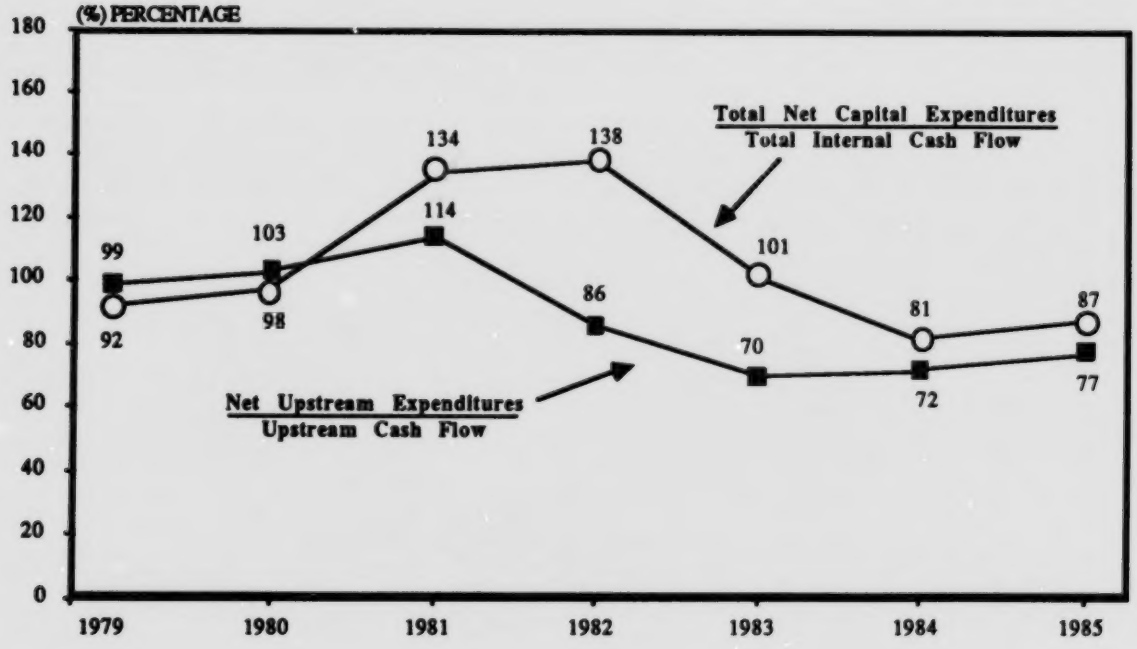
REINVESTMENT RATIOS

The overall reinvestment ratio for the petroleum industry -- i.e. total net capital expenditures(1) as a percentage of internal cash flow from all business segments -- rose 6 percentage points to 87% in 1985. While cash flow rose 8%, net capital expenditures increased 13% in 1985. The overall increase would have been higher had it not been for the 11% decline in downstream spending.

Although the reinvestment ratio for the entire industry moved up 6 percentage points, there is a marked difference in the results for the Canadian and foreign-controlled companies in the upstream segment. The latter group increased net capital expenditures 36% as cash flow grew 12%, raising its upstream reinvestment ratio from 65% to 79% in 1985. The Canadian-controlled sector increased net capital expenditures 8% while upstream cash flow rose 13%; their reinvestment ratio therefore dropped to 75%, a decrease of 4 percentage points compared to 1984.

Upstream capital expenditures (net of PIP grants) accounted for 77% of upstream cash flow, up 5 percentage points from 1984, as upstream cash flow and net expenditures rose 13% and 20% respectively.

Chart 3. REINVESTMENT RATIOS

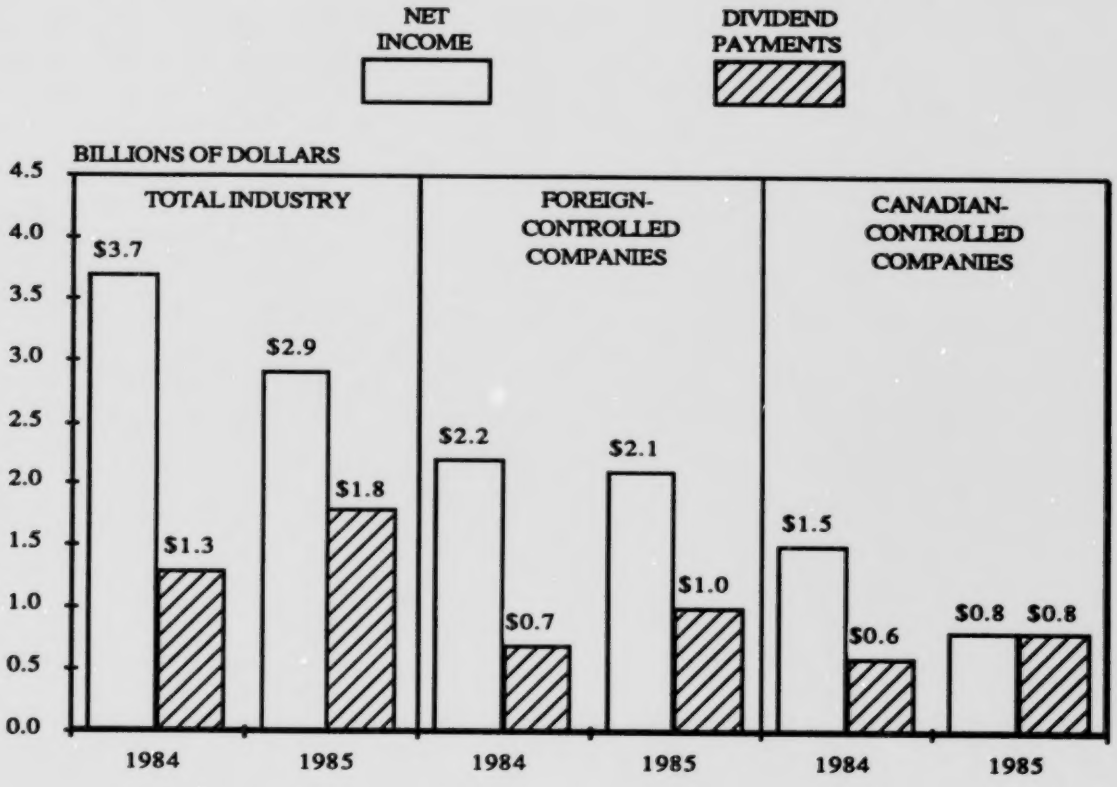


(1) Net capital expenditures is defined as capital expenditures less PIP grants, similar incentives and insurance receipts.

DIVIDEND PAYMENTS

Dividend payments by petroleum companies rose 33% to $1.8 billion in 1985 resulting in a total payout of 62% of net income vs. 36% in 1984. Canadian-controlled firms increased dividend payments 32% to $830 million, for a payout rate of 108% of net income (Chart 4) reflecting the fact that several companies included in this group reported extraordinary losses, thus depressing group income. Dividends paid by foreign-controlled companies increased 34% to $960 million, a payout of 45%.

Chart 4. DIVIDEND PAYMENTS COMPARED WITH NET INCOME



OTHER USES

Significant changes in other uses of funds were:

- an increase of $3.3 billion to $5.9 billion in 'all other uses' -- funds used for the purchase of assets in conjunction with takeovers;

- a $690 million decrease in funds used to repay long-term debt ($1.9 billion) with most of this decrease reported by Canadian-controlled companies; and

- a $2.4 billion decrease in working capital additions ($2.1 billion). Working capital additions during 1984 were specifically due to reclassification of short-term debt to long-term as part of an overall rescheduling arrangement.

4 - COMPARATIVE PERFORMANCE: PETROLEUM AND OTHER INDUSTRIES

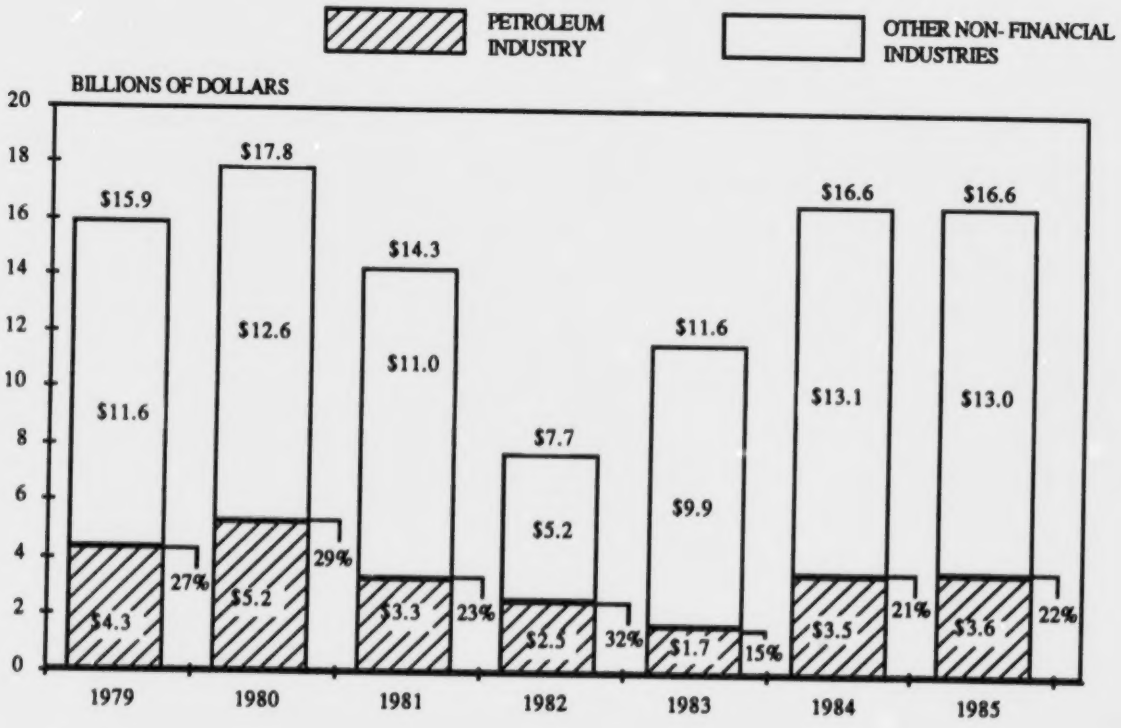
NET INCOME COMPARISON

Additional insight into the financial performance of the petroleum industry is gained by comparison with other sectors of the economy using data from Statistics Canada.(1)

Exclusive of Crown corporations, the petroleum industry's net income on Canadian operations after extraordinary items increased 3% in 1985, compared with a 1% decrease for all other non-financial industries in Canada. Chart 5 shows that the petroleum industry's net income for 1985 was equal to 22% of all of the non-financial industries' net income, up slightly from the 21% recorded in 1984.

Return on shareholders' equity for the petroleum industry of 9.4% after extraordinary items compares with 9.8% recorded for all other non-financial industries. The rate of return on capital employed for the petroleum industry is 6.8% vs. 7.8% for all other non-financial industries.

Chart 5. COMPARISON OF NET INCOME -- PETROLEUM INDUSTRY VS. ALL OTHER NON-FINANCIAL INDUSTRIES



(1) The data given in this section of the report are not precisely comparable with those presented elsewhere although they are close to the results based on the PMA survey and reported in Chapters 1 to 3. Petroleum industry data from Statistics Canada, while covering a greater number of companies than the PMA survey, exclude government business enterprises as well as the foreign activities of companies originating in Canada. The PMA survey covers the global activities of petroleum companies operating in Canada, including Crown corporations, over a minimum size in terms of assets and revenues.

CAPITAL EXPENDITURES

Based on Statistics Canada data, petroleum industry gross capital expenditures (i.e. before deducting PIP grants) increased 12% in 1985 over 1984 (Table 12). Capital expenditures of other non-financial industries increased 15% largely the result of greater strength in the manufacturing sector. Accordingly, capital expenditures of the petroleum industry as a proportion of total capital expenditures of all non-financial industries decreased by half a percentage point to 30% in 1985.

Table 12. COMPARISON OF CAPITAL EXPENDITURES -- PETROLEUM INDUSTRY VS. ALL OTHER NON-FINANCIAL INDUSTRIES

		1984	1985	Increase (Decrease)	
		------ $ billions ------			(%)
1.	Manufacturing	$ 6.7	$ 8.3	$ 1.6	23
2.	Mining	1.8	1.6	(0.2)	(12)
3.	Other Non-Financial	12.3	14.1	1.8	14
4.	**TOTAL NON-FINANCIAL** excluding Petroleum	20.8	24.0	3.2	15
5.	Petroleum	9.1	10.2	1.1	12
6.	**TOTAL NON-FINANCIAL** including Petroleum	29.9	34.2	4.3	14
7.	Line 5 as a % of line 6	30.4	29.8		

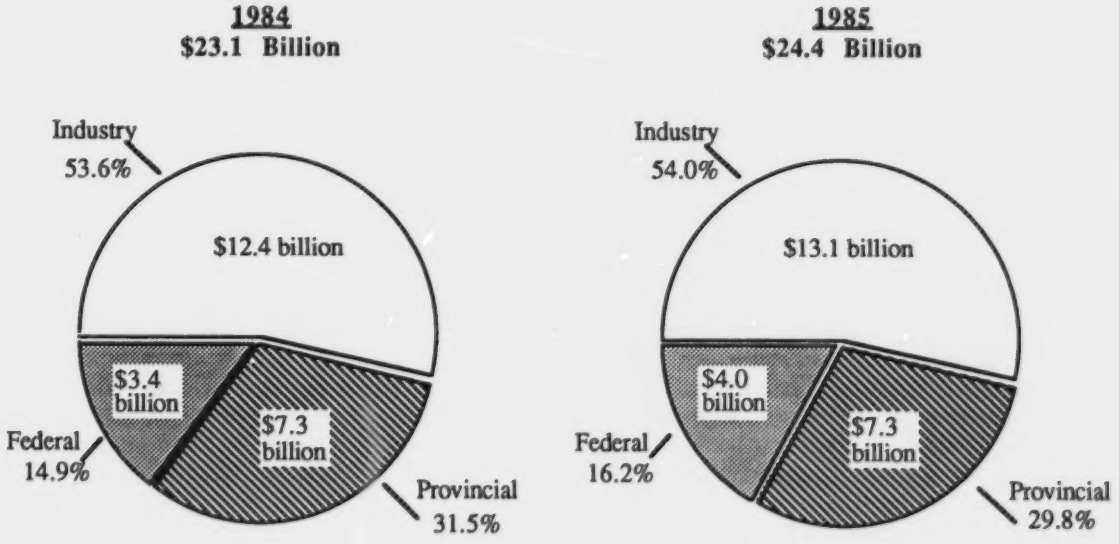
SOURCE: Statistics Canada, 61-003, Industrial Corporations - Financial Statistics. This survey does not include government enterprises. Expenditures are gross, including PIP and other capital grants.

5 - REVENUE SHARING: INDUSTRY AND GOVERNMENTS

Revenues available for sharing[1] increased $1.2 billion to $24.4 billion in 1985. As shown by Chart 6 and Table 13, the industry and the federal government gained from the increase, in both amount and percentage terms, while the provinces' share remained unchanged at $7.3 billion.

A reduced deficit in the Petroleum Compensation Charge (PCC) account resulted in an increase in the federal government's share of upstream revenues from 15% in 1984 to 16% in 1985. However, exclusive of the deficit in the PCC account, net federal revenues declined by $260 million to a share of 17.1% in 1985 vs. 18.5% in 1984.

Chart 6. REVENUE SHARING: INDUSTRY AND GOVERNMENTS



(1) Revenue available for sharing =

	Upstream Gross Revenues
-	Operating Costs
+	Oil Export Charge
+	Natural Gas and Gas Liquids Tax
+	Canadian Ownership Charge
+	Change in PCC Account
=	Total Revenues Available for Sharing

Revenue shares are estimated for the entire upstream industry and are not limited to PMA reporting firms. Figures for revenue sharing components not directly related to upstream operations were obtained from Energy, Mines and Resources Canada, Statistics Canada and provincial governments.

Table 13. REVENUE SHARING: INDUSTRY AND GOVERNMENTS

	Revenues 1984	Revenues 1985	Increase (Decrease)	
	$ billions			(%)
INDUSTRY SHARE				
Internal Cash Flow (before interest)	$11.42	$12.73	$1.32	12
PIP and Other Incentives Grants	1.92	1.75	(0.17)	(9)
Land Payments to Crown	(0.94)	(1.33)	(0.39)	(41)
Total Industry Share[a]	12.40	13.15	0.76	6
PROVINCIAL SHARE				
Royalties and Freehold Tax[b]	5.95	5.73	(0.22)	(4)
Land Payments	0.93	1.32	0.39	41
Corporate Income Tax[c]	0.58	0.54	(0.04)	(7)
Oil Export Charge	0.25	0.17	(0.08)	(32)
PIP and Other Incentives Grants Paid	(0.41)	(0.50)	(0.09)	(22)
Total Provincial Share	7.30	7.26	0.04	(1)
FEDERAL SHARE				
PGRT and IORT	2.45	2.27	(0.18)	(7)
Corporate Income Tax	2.40	2.54	0.14	6
Natural Gas and Gas Liquids Tax	0.03	-	(0.03)	(100)
Canadian Ownership Charge	0.85	0.49	(0.36)	(42)
Oil Export Charge	0.25	0.17	(0.08)	(32)
Net Petroleum Compensation[d]	(1.04)	(0.27)	0.77	74
Land Payments	0.01	0.01	-	-
PIP Grants Paid	(1.51)	(1.26)	0.25	17
Total Federal Share	3.44	3.95	0.51	15
GRAND TOTAL	23.14	24.36	1.22	5

NOTES: (a) To cover interest payments, capital amortization, return on capital and net capital expenditures.

(b) Data obtained from provincial sources. Figures reflect actual royalty payments made during the year. Thus, they are exclusive of credits claimed by companies against royalties by virtue of provincial incentive schemes. Indian and freehold royalties and royalties paid to freeholders are excluded.

(c) Net of rebates from provincial governments.

(d) Revenue accruing to the Government of Canada less amounts required to finance oil import compensation, production qualifying for the New Oil Reference Price (NORP), Special Old Oil Price (SOOP), deliveries of Canadian crude to Atlantic Canada and certain exchanges of crude oil between Canada and the United States.

INDUSTRY SHARE

The industry's share of revenues in 1985 was 54% of the total available vs. 53.6% a year earlier. Its share rose $760 million or 6% to $13.2 billion. Increased internal cash flow before interest expenses,[1] up 12% to $12.7 billion, was partly offset by lower receipts from incentive programs, down $170 million, and by increased land payments to the provinces, up $390 million.

PROVINCIAL SHARE

Provincial revenues from oil producing operations were 29.8% of total revenues available for sharing in 1985 compared to 31.5% in 1984 -- unchanged at $7.3 billion. A substantial increase in land payments receipts, up 41% to $1.3 billion, was entirely offset by a decrease in the other revenue components.

The collection of royalties and freehold tax decreased by about $220 million despite a small increase in production volumes (3%). The average rate of provincial royalty and freehold tax as a percentage of upstream production revenues declined slightly from 20.8% to 19.4%, mainly as a result of the extension of oil royalty/tax incentive programs by Alberta and Saskatchewan and the introduction of an oil royalty holiday program by British Columbia. Alberta received $5 billion from this source, Saskatchewan $0.5 billion and British Columbia $0.2 billion. Corresponding figures for receipts for land payments were $1.02 billion, $156 million and $142 million.

FEDERAL SHARE

The federal revenue share increased 15% to $4 billion resulting in 16.2% of total revenue available for sharing in 1985 vs. 14.9% in the previous year. This increase in share was caused by the substantial reduction in the PCC account deficit, attributable to decontrol of oil prices which brought about lower payments to producers of oil qualifying for NORP prices and as compensation for imported oil. In addition, the increased collection of federal corporate income taxes of about $140 million (the increase reflects the deferral during 1984 of taxes previously accrued) and lower PIP grant payments of some $250 million helped offset lower receipts from other components of the federal revenue share: PGRT was down $180 million, the Canadian ownership special charge $360 million, the oil export charge $80 million and NGGLT, down $30 million.

---

(1) Total industry cash flow and income taxes were calculated by grossing up PMA data by a factor derived from the ratio of total industry upstream production to comparable production of PMA reporting companies, using the average results of smaller oil and gas producers as a basis for estimating the residual.

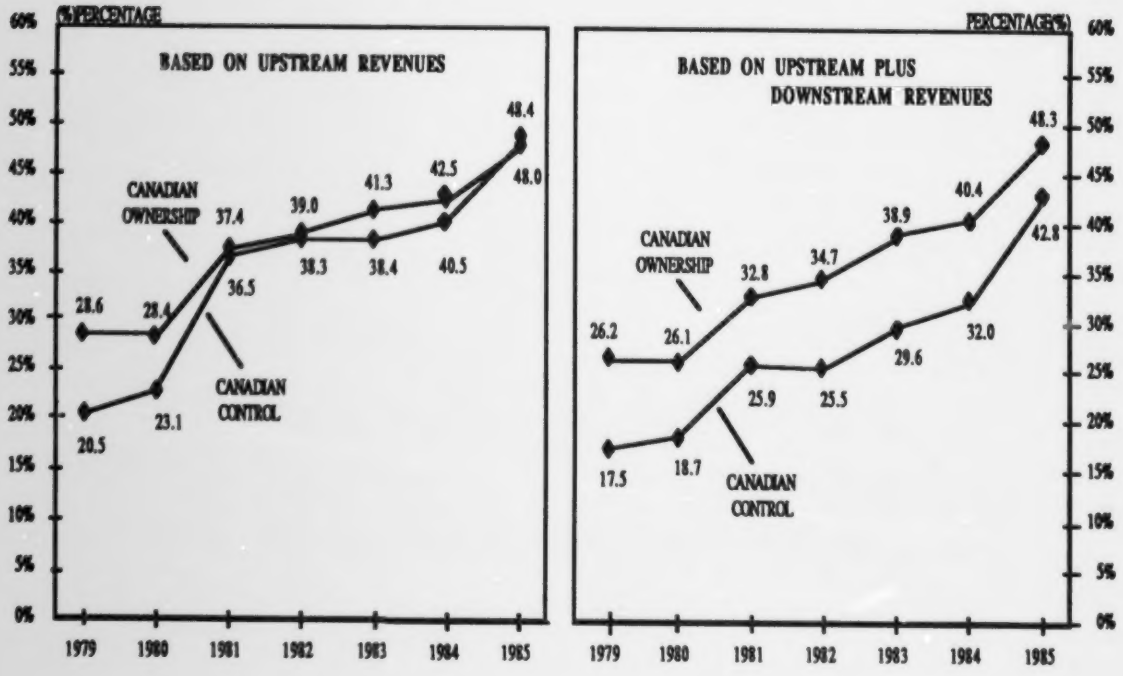
6 - OWNERSHIP AND CONTROL TRENDS

The takeover of Gulf Canada by Olympia and York and the sale of 11.5% of Texaco Inc's share of Texaco Canada to the Canadian public, together with other transactions in 1985, had a substantial impact on the levels of Canadian ownership and control of the oil and gas industry. Canadian ownership of the petroleum industry, based on upstream revenues, rose by 5.5 percentage points in 1985 to 48% from 42.5% at year-end 1984.

Canadian control of upstream revenues increased 7.9 percentage points to 48.4%, largely as a result of the Gulf takeover.

Appendix A-15 provides further detail on other yardsticks for measuring ownership and control.

Chart 7. CANADIAN OWNERSHIP AND CONTROL OF THE PETROLEUM INDUSTRY



Canadian ownership and control of upstream plus downstream revenues rose 7.9 and 10.8 percentage points in 1985 over 1984 to reach 48.3% and 42.8% respectively. The most significant reasons for the increase was the Gulf takeover and the increase in Texaco's Canadian ownership.

Table 14. OWNERSHIP AND CONTROL BY COUNTRY AND SECTOR[a]

	Ownership		Control	
	1984	1985	1984	1985
	(%)		(%)	
United States	48.3	40.3	53.8	42.8
Other Foreign	11.3	11.4	14.2	14.4
TOTAL FOREIGN	59.6	51.7	68.0	57.2
Canadian Public Sector	12.2	13.5	13.6	14.8
Canadian Private Sector	28.2	34.8	18.4	28.0
TOTAL CANADIAN	40.4	48.3	32.0	42.8

NOTE: (a) Based on upstream plus downstream ('petroleum-related') revenues using ownership data as at year-end 1985.

7 - FIVE-YEAR OPERATING SUMMARY: 1981-1985

Information drawn from five years of petroleum monitoring surveys provides a basis for comparing a number of characteristics of financial performance of the oil and gas industry over the period 1981-85. To provide users of this survey with some additional perspective -- even recognizing the distortions induced by inflation -- Table 15 presents aggregate data for 114 companies reporting to the Petroleum Monitoring Agency for which consistent statistics are available over the five years. Detailed operating data for this aggregation, representing 98% of the PMA's 1985 data base in terms of revenues, are shown in Appendix B, Schedules 9 and 10.

Table 15. FIVE-YEAR OPERATING SUMMARY: 1981-1985

	1981	1982	1983	1984	1985
	$ billions				
REVENUES					
Total Operations[a]	$56.4	$61.1	$62.6	$63.1	$66.1
Upstream	17.4	21.2	24.2	26.4	27.7
Downstream	33.8	35.1	33.8	31.9	34.0
NET INCOME					
Total Operations[a]	3.2	1.7	1.5	3.7	2.9
Upstream	1.7	2.0	2.5	3.1	3.0
Downstream	1.3	0.4	(0.1)	0.4	0.2
INTERNAL CASH FLOW					
Total Operations[a]	8.3	7.4	8.7	10.6	11.3
Upstream	5.3	5.8	7.4	8.4	9.4
Downstream	2.0	1.2	0.8	1.1	1.1
CAPITAL EXPENDITURES					
Upstream	6.8	6.4	6.8	7.8	9.1
Downstream	2.0	2.5	1.7	1.1	0.9
Other	1.3	1.6	1.1	0.8	0.7
Total in Canada	10.1	10.5	9.6	9.6	10.7
Expenditures Abroad	1.8	1.1	0.8	0.7	1.1
TOTAL CAPITAL OUTLAYS	11.9	11.6	10.4	10.3	11.8
DIVIDEND PAYMENTS	1.2	1.1	1.3	1.3	1.8
	(%)				
TOTAL REINVESTMENT RATIO[b]	133.9	138.6	100.5	80.3	86.8
UPSTREAM REINVESTMENT RATIO[b]	114.1	86.0	69.9	71.6	76.4
GNE DEFLATOR	100.0	110.3	116.2	119.5	123.2

NOTES: (a) Includes 'other Canadian' and foreign operations.

(b) For definitions see notes a and b, Appendix A-12.

NOTEWORTHY TRENDS

Since the 1981-82 period was marked by unprecedented inflation in North America as reflected in the GNE deflator on Table 15, unrefined comparisons will inevitably distort indicated trends. On the other hand, adjustment for inflation cannot simply apply constant dollar factors to major income and cost components without elaborate explanations. These would be inappropriate in this survey, however, and have not been attempted.

The trends noted below, therefore, generally have been confined to those that can be expressed in terms that are not distorted by inflation.

1. Revenues rose by 17% to $66.1 billion from 1981 to 1985 -- growing at an average annual rate of 4%, slightly less than the general rate of inflation. Higher wellhead prices for oil and natural gas fueled the growth in the upstream segment, which in turn provided the impetus for the growth in overall revenues. In addition, production of crude oil and natural gas liquids, at its lowest point in 1981, has climbed steadily to its historically highest level in 1985 which was well above the previous year's high. The 1985 increase resulted from greater production from Norman Wells, Syncrude, Cold Lake and the start-up of a number of enhanced oil recovery projects.

2. Net income bottomed out in 1983 at 2.4% of revenues and reached a peak of 5.8% in 1984 and has since decreased to 4.4% of 1985 revenues. This level of net income in relation to revenues in 1985 compared to 1984 is largely attributable to extraordinary write-offs of over $1 billion in 1985. In 1983 the relationship of net income to revenues was also particularly low because of large write-downs of assets by one large Canadian-controlled company and the disappearance of downstream profits. Upstream profits, which were 9% of 1981 revenues, represented 11% of 1985 revenues.

3. Internal cash flow increased sharply as a percentage of revenue -- from a low of 12% in 1982 to an average of 17% in the last two years. Upstream internal cash flow amounted to 34% of 1985 revenues vs. 27% in 1982. Downstream cash flow declined sharply in 1982 and 1983 because of intense price competition and recovered in 1984 and 1985 but only to about half of the 1981 peak level.

4. Capital expenditures peaked in 1981 and 1982, largely driven by heavy expenditures downstream and abroad. Expenditures in 1985 nearly matched these records on the basis of expenditures in Canada rising to peak levels. Upstream expenditures were at their highest level in 1985 offsetting declines in spending on downstream and other Canadian activities. Exploration expenditures on provincial lands grew in 1985 while that on Canada Lands declined.

5. The reinvestment ratios were abnormally high in the period of 1981 to 1983, due to heavy expenditures in downstream and other Canadian activities, bottoming out in 1984 and moving up slightly in 1985.

6. Dividend payout ranged from a high of 84% of earnings in 1983 to 36% in 1984 and averaged 61% in 1985. As dividends rose steadily -- on average 11% per year -- the wide swings in the payout ratio were entirely due to fluctuation in net income after extraordinary write-offs. Most recently, the increase in dividend payments came largely from Canadian-controlled companies' payout on preferred shares.

APPENDICES

		Page
A	**SUPPLEMENTARY DATA**	
1	The Year In Review	A-1
2	Petroleum and Natural Gas Supply and Demand Summary	A-2
3	Canadian Natural Gas Prices: 1974-1986	A-3
4	Canadian Crude Oil Prices: 1977-1986	A-4
5	Changes to the Petroleum Compensation Charge and the Gathering and Transportation Costs	A-5
6	Net Income by Sector and Segment	A-6
7	Rates of Return: Canadian Petroleum Industry	A-7
8	Comparison of Interest Charges with Income Before Taxes	A-8
9	PIP Grants by Area and Type of Expenditure	A-9
10	Well Completions and Metres Drilled in Canada	A-10
11	Gross Exploration Expenditures in Canada -- By Area	A-11
12	Ratio of Capital Expenditures to Internal Cash Flow	A-12
13	Dividend Payments	A-13
14	Rates of Return: Petroleum and Other Industries	A-14
15	Canadian Ownership and Control by Company Group and Category	A-15
B	**COMPLETE SURVEY RESULTS**	
1	Income and Expense Statement	B-1
2	Financial Performance for Main Business Segments	B-8
3	Sources and Uses of Funds	B-11
4	Upstream Canadian Capital Expenditures by Location	B-12
5	Capital Expenditures by Activity	B-13
6	Balance Sheet	B-14
7	Volume and Value of Production	B-15
8	Upstream Operating Costs and Royalties	B-16
9	Income and Expense Statement: 1981-1985	B-17
10	Sources and Uses of Funds: 1981-1985	B-18
C	**GLOSSARY OF TERMS**	C-1
D	**PMA TERMS OF REFERENCE**	D-1

1985

THE YEAR IN REVIEW

Jan - Extension announced of existing oil and gas pricing, and fiscal measures until the end of March.

Feb - Federal and Newfoundland governments signed a Memorandum of Agreement (Atlantic Accord) respecting offshore oil and gas resource management and revenue sharing.

Mar - The federal and producing provinces' governments concluded an agreement (Western Accord) to deregulate oil and gas pricing, to remove certain taxes and charges, and to replace petroleum incentives payments.

Apr - Details announced of the Western Accord's provision allowing non-taxpaying companies to use new exploration and development expenditures to reduce PGRT liabilities.

May - Federal Budget brought down.

Jun - Implementation of Western Accord's undertaking to deregulate oil prices and marketing.

- The Government of Saskatchewan announced an extension of oil royalty and tax incentives.

- Alberta oil royalty and incentive system revamped to generate more cash flow and stimulate exploration/development activity.

Jul - Federal and Alberta governments announced measures to prevent further carve-out arrangements thereby preventing further income tax erosion.

Aug - Olympia and York purchased Gulf Canada.

- The Government of British Columbia introduced oil royalty holiday program.

Oct - Details announced for implementation of Western Accord's PGRT exemption for new production and major energy projects.

- Announcement of a new frontier energy policy to provide new petroleum exploration incentives, streamline the regulatory burden, and improve the federal royalty regime.

- Natural gas pricing and marketing agreement signed.

Dec - The federal government allowed merger between Mobil Oil and Superior Oil.

- OPEC oil ministers announced the abandonment of posted oil prices in an effort to preserve market share.

Appendix A-2

PETROLEUM AND NATURAL GAS SUPPLY AND DEMAND SUMMARY[a]

		1984	1985	Increase (Decrease)
PETROLEUM[b]		(thousands m^3/day)		(%)
Production	- Crude Oil	244	249	2
	- Natural Gas Liquids[c]	38	38	-
	- TOTAL PRODUCTION	282	287	2
Net Exports[d]	- Crude Oil	18	32	78
	- Natural Gas Liquids	21	18	(14)
	- Refined Products	8	12	50
	- TOTAL NET EXPORTS	47	62	32
Consumption	- Natural Gas Liquids	25	31	20
	- Refined Products	227	228	-
	- TOTAL CONSUMPTION	252	259	3
NATURAL GAS		(millions m^3/day)		(%)
Production		195	213	9
Net Exports		59	72	22
Consumption		136	141	4
NEB Export Authorization		144	146	2

NOTES: (a) Figures represent total industry activity and are derived from a number of sources -- provincial governments, Energy, Mines and Resources Canada, and Statistics Canada.

(b) Petroleum includes conventional and synthetic crude oil and natural gas liquids (propane, butane and ethane) derived from gas plants and gas reprocessing plants. Data on production, net exports and consumption do not represent a complete supply/demand balance as industry's own use and stock changes are not shown.

Sources: Production -- Statistics Canada (Catalogue 26-006)
Net Exports -- EMR Oil Supply Branch
Consumption -- Statistics Canada (Catalogue 45-004)

(c) Does not include refinery production of 9.2 thousands m^3/d in 1985 and 9.1 thousands m^3/d in 1984.

(d) On a gross basis, petroleum imports (including exchange receipts) for 1984 and 1985 were 38,800 and 45,800 m^3/d (244,200 and 288,200 b/d) respectively, or 15% and 18% of domestic consumption in those periods.

CANADIAN NATURAL GAS PRICES: 1974-1986

	Field Gate Including Export Flow Back	Alberta Border	Toronto City Gate	Weighted Ontario Sales Realization	Ontario Market		
					Residential	Commercial	Industrial
	$ per Gigajoules						
1974	...	0.28	0.55	0.83	1.26	0.94	0.64
1975	...	0.53	0.82	1.13	1.56	1.21	0.94
1976	0.98	0.84	1.24	1.61	2.04	1.69	1.40
1977	1.21	1.04	1.47	1.85	2.44	1.96	1.37
1978	1.44	1.28	1.77	2.14	2.74	2.22	1.90
1979	1.66	1.36	1.92	2.35	3.03	2.43	2.06
1980	2.30	1.61	2.23	2.69	3.43	2.73	2.36
1981	2.34	1.75	2.42	3.40[a]	4.24	3.41	3.03
1982	2.53	2.01	2.80	4.16[a]	4.93	4.12	3.70
1983	2.48	2.48	3.38	4.74[a]	5.72	4.78	4.15
1984	2.61	2.78	3.71	4.74	6.07	4.89	4.16
1985 Jan	2.50	2.80	3.73	4.87	5.61	4.83	4.22
Feb	2.52	2.80	3.73	4.89	5.60	4.82	4.25
Mar	2.59	2.80	3.73	4.80	5.69	4.86	4.15
Apr	2.58	2.80	3.73	4.81	5.76	4.85	4.18
May	2.48	2.80	3.73	4.72	6.12	4.92	4.12
Jun	2.49	2.80	3.78	4.63	6.63	5.00	4.09
Jul	2.47	2.80	3.78	4.63	6.81	5.00	4.08
Aug	2.45	2.80	3.78	4.59	6.91	5.00	4.05
Sep	2.46	2.80	3.78	4.63	6.85	4.97	4.09
Oct	2.35	2.80	3.78	4.66	6.25	4.96	4.10
Nov	2.33	2.80	3.78	4.73	5.83	4.89	4.11
Dec	2.43	2.80	3.78	4.73	5.59	4.76	4.09
Average	2.47	2.80	3.76	4.72	6.14	4.91	4.13
1986 Jan	2.41	2.80	3.78	4.78	5.54	4.77	4.11
Feb	2.35	2.80	3.78	4.80	5.55	4.77	4.15
Mar	2.33	2.80	3.78	4.78	5.59	4.79	4.11

NOTE: (a) The rising average sales realizations for the years 1981 to 1984 reflect the imposition of the Natural Gas and Gas Liquids Tax (NGGLT).

CANADIAN CRUDE OIL PRICES: 1977-1986

	Conventional Old Oil Wellhead Price[a]		Petroleum Compensation & Other Charges[b]		Cost Of Crude Oil Exclusive Of Transportation[c]		Refiner Acquisition Cost At Montréal	
	($/bbl)	($/m³)	($/bbl)	($/m³)	($/bbl)	($/m³)	($/bbl)	($/m³)
1977								
Jan 1	9.75	61.36					10.59	66.64
Jul 1	10.75	67.65					11.62	73.13
1978								
Jan 1	11.75	73.94					12.66	79.66
Jul 1	12.75	80.23	0.10	0.63	12.85	80.86	13.85	87.15
1979								
Jan 1	12.75	80.23	0.33	2.08	13.08	2.31	14.13	88.92
Jul 1	13.75	86.53	0.33	2.08	14.08	88.61	15.13	95.21
Sep 1	13.75	86.53	0.50	3.15	14.25	89.68	15.30	96.28
Nov 1	13.75	86.53	0.85	5.35	14.60	91.88	15.65	98.49
1980								
Jan 1	14.75	92.83	0.85	5.35	15.60	98.18	16.65	104.78
Aug 1	16.75	105.41	1.75	11.01	18.50	116.42	19.73	124.16
Nov 1			2.55	16.04	19.30	121.45	20.53	129.20
1981								
Jan 1	17.75	111.70	5.05	31.77	22.80	143.47	24.07	151.47
Jul 1	18.75	117.99	9.30	58.53	28.05	176.52	29.52	185.77
Oct 1	21.25	133.73	9.30	58.53	30.55	192.26	32.02	201.50
Dec 1	21.25	133.73	7.45	46.89	28.70	180.62	30.24	190.30
1982								
Jan 1	23.50	147.89	7.45	46.89	30.95	194.78	32.54	204.77
Jul 1	25.75	162.05	7.45	46.89	33.20	208.94	34.90	219.63
1983								
Jan 1	29.75	187.22	4.91	30.89	34.66	218.11	35.79	225.25
1984								
Nov 10	29.75	187.22	7.69	48.39	37.44	235.61	39.44	248.21
1985								
Jun 1	36.40	229.06					38.30	241.02
Jul 1	35.45	223.09					37.36	235.11
Aug 1	35.21	221.58					37.12	233.60
Sep 1	35.42	222.90					37.33	234.92
Oct 1	36.27	228.25					38.18	244.26
Nov 1	37.27	234.54					39.19	246.62
Dec 1	37.06	233.22					38.99	245.36
1986								
Jan 1	32.79	206.34					34.76	218.93
Feb 1	22.20	139.70					24.18	152.16
Mar 1	16.48	103.71					18.46	116.17
Apr 1	15.74	99.05					17.71	111.45

NOTES: (a) Starting June 1, 1985 (following deregulation) the wellhead price is derived from the Edmonton purchase price adjusted by an estimated gathering cost of approximately 57¢ per barrel.

(b) See Appendix A-5 for detail pertaining to these charges.

(c) Gathering and transportation costs make up the difference between the blended price of Canadian crude oil, exclusive of transportation and the refiner acquisition cost at Montréal. These costs amounted to $12.40/m³ ($1.97/bbl) on April 1, 1986.

CHANGES TO THE PETROLEUM COMPENSATION CHARGE AND THE GATHERING AND TRANSPORTATION COSTS

	Type of Change	Change ($/bbl)	Change ($/m³)	Level of Total Charges ($/bbl)	Level of Total Charges ($/m³)	Gathering and Transportation Costs ($/bbl)	Gathering and Transportation Costs ($/m³)
1980							
Apr 1	PCC Increase	0.15	0.94	1.00	6.29	1.05	6.60
Jul 2	PCC Increase	0.75	4.72	1.75	11.01	1.23	7.74
Nov 1	PCC Increase	0.80	5.03	2.55	16.04	1.23	7.74
1981							
Jan 1	PCC Increase	2.50	15.73	5.05	31.77	1.27	8.00
Mar 3	SCC Imposed	0.75	4.75	5.80	36.52	1.46	9.17
May 1	COSC Imposed	1.15	7.25	6.95	43.77	1.46	9.17
Jun 3	SCC Increase	1.10	6.89	8.05	50.66	1.46	9.17
Jun 3	PCC Increase	1.25	7.87	9.30	58.53	1.46	9.17
Sep 22	SCC Abolished	(1.85)	(11.64)				
	PCC Increase	1.85	11.64	9.30	58.53	1.46	9.17
Nov 30	PCC Decrease	(1.85)	(11.64)	7.45	46.89	1.54	9.68
1982	No Changes	-	-	7.45	46.89	1.74	10.95
1983							
Jan 1	PCC Decrease	(2.54)	(16.00)	4.91	30.89	1.74	10.95
1984							
Nov 10	PCC Increase	2.78	17.50	7.69	48.39	2.00	12.60
1985							
Jun 1	PCC Abolished	(6.54)	(41.14)	1.15	7.25	1.90	11.96
	COSC Abolished	(1.15)	(7.25)	-	-	1.90	11.96

NOTE: PCC Petroleum Compensation Charge
SCC Special Compensation Charge
COSC Canadian Ownership Special Charge

NET INCOME BY SECTOR AND SEGMENT

	1984	1985	Increase (Decrease)	
		$ millions		(%)
CANADIAN-CONTROLLED COMPANIES				
Upstream	1064	830	(234)	(22)
Downstream	147	26	(121)	(82)
Other Canadian Operations	100	(135)	(235)	-
Foreign Activities	173	46	(128)	(74)
Total Canadian-Controlled	1484	767	(717)	(48)
FOREIGN-CONTROLLED COMPANIES				
Upstream	2051	2151	100	5
Downstream	258	202	(56)	(22)
Other Canadian Operations	(110)	(207)	(97)	-
Foreign Activities	27	(10)	(37)	-
Total Foreign-Controlled	2226	2135	(91)	(4)
TOTAL INDUSTRY				
Upstream	3115	2981	(134)	(4)
Downstream	405	228	(178)	(44)
Other Canadian Operations	(10)	(342)	(332)	-
Foreign Activities	201	35	(165)	(82)
TOTAL INDUSTRY	3710	2902	(808)	(22)

RATES OF RETURN: CANADIAN PETROLEUM INDUSTRY

	1981	1982	1983	1984	1985	Five-Year Average
			%			
RETURN ON AVERAGE CAPITAL EMPLOYED						
UPSTREAM						
Canadian-Controlled Companies	7.1	6.1	3.3	5.4	4.5	5.3
Foreign-Controlled Companies	6.8	8.9	12.7	11.4	10.8	10.1
Total Industry	7.0	7.1	6.7	7.7	7.0	7.1
DOWNSTREAM[a]						
Canadian-Controlled Companies	5.6	(1.7)	(4.0)	1.9	(0.9)	0.2
Foreign-Controlled Companies	12.7	4.7	0.2	3.6	3.0	4.8
Total Industry*	10.1	2.4	(1.3)	3.0	1.6	3.2
TOTAL OPERATIONS[b]						
Canadian-Controlled Companies	7.4	2.9	(0.5)	5.2	3.3	3.7
Foreign-Controlled Companies	8.6	6.8	7.9	8.4	7.6	7.9
Total Industry	7.9	4.4	3.4	6.4	5.0	5.4
**Memo:* *National Refiners/Marketers*	8.3	1.3	(1.9)	2.8	0.8	2.3
Regional Refiners/Marketers	14.1	4.9	0.3	3.5	3.6	5.3
RETURN ON AVERAGE EQUITY						
CANADIAN OPERATIONS						
Canadian-Controlled Companies	12.1	5.5	(0.6)	7.0	3.6	5.5
Foreign-Controlled Companies	11.7	9.7	11.7	12.4	11.0	11.3
Total Industry	11.9	7.6	5.3	9.6	7.3	8.3
TOTAL OPERATIONS[b]						
Canadian-Controlled Companies	12.0	2.7	(1.8)	7.6	3.7	4.8
Foreign-Controlled Companies	11.7	9.6	11.6	12.4	10.9	11.2
Total Industry	11.8	6.1	4.6	9.9	7.2	7.9

NOTES: (a) Downstream, in this table, represents oil products operations only, i.e. it excludes petrochemical and other downstream operations.

(b) Upstream, downstream, other Canadian and foreign operations.

COMPARISON OF INTEREST CHARGES WITH INCOME BEFORE TAXES[a]

	(1) Income Before Taxes	(2) Interest Charges Incurred	(3) Ratio of Column (2) to (1)
	$ millions		(%)
Integrateds and Refiners	3689	511	14
Oil and Gas Producers			
Senior Producers	6105	1292	21
Junior Producers	1557	1013	65
Total Oil and Gas Producers	7662	2305	30
TOTAL INDUSTRY	11351	2816[b]	25
Canadian-Controlled	5675	2190	39
Foreign-Controlled	5676	626	11

NOTES: (a) The figures in Column 1 represent the total of income before taxes from total operations and expensed interest. Column 2 shows total interest charges incurred (both expensed and capitalized). Column 3 is the ratio of Column 2 to Column 1.

(b) In addition to the $2.4 billion of interest charges expensed in 1985, $370 million was capitalized (almost all by Canadian-controlled companies).

PIP GRANTS BY AREA AND TYPE OF EXPENDITURE

	Exploration	Development & Production	TOTAL	Canadian-Controlled	Foreign-Controlled
			$ millions		
British Columbia					
1984	19	3	22	22	-
1985	18	4	22	22	-
Alberta					
1984	194	85	279	279	-
1985	237	122	359	359	-
Saskatchewan					
1984	24	19	43	43	-
1985	28	27	55	55	-
Other Provinces					
1984	4	2	6	6	-
1985	4	2	6	6	-
Beaufort Sea					
1984	529	-	529	525	4
1985	447	-	447	431	17
Labrador East					
1984	438	-	438	419	19
1985	428	-	428	410	18
Atlantic Shelf South					
1984	321	-	321	299	22
1985	170	-	170	156	14
Other Canada Lands					
1984	136	-	136	133	3
1985	103	-	103	99	4
TOTAL					
1984	1664	109	1773	1726	48
1985	1435	156	1591	1538	53

NOTE: PIP grants are incentives to qualifying enterprises carrying out exploration, development and production activities in Canada. The Government of Alberta administers and pays the grants for activities within that province, and the Government of Canada administers the program elsewhere in Canada.

WELL COMPLETIONS AND METRES DRILLED IN CANADA

	EXPLORATORY			DEVELOPMENT		
	1984	1985	Increase (Decrease) (%)	1984	1985	Increase (Decrease) (%)
WELL COMPLETIONS (Number of Wells)						
British Columbia	127	130	2	56	85	52
Alberta	1811	2145	18	3762	4910	31
Saskatchewan	729	845	16	2175	2913	34
Other Provinces	100	137	37	312	264	(15)
Northern Canada[a]	22	36	64	35	27	(23)
Offshore[b]	20	28	40	-	1	-
TOTAL	2809	3321	18	6340	8200	29
METRES DRILLED (Thousands)						
British Columbia	141	125	(11)	73	135	85
Alberta	2843	3179	12	4133	5132	24
Saskatchewan	787	837	6	1894	2721	44
Other Provinces	67	77	15	239	232	(3)
Northern Canada[a]	69	89	29	24	24	-
Offshore[b]	84	122	45	-	4	-
TOTAL	3991	4429	11	6363	8248	30

NOTES: (a) All areas in Canada North of 60°, including Hudson Bay.

(b) East coast and West coast offshore areas.

SOURCE: Oilweek, February 17, 1986

GROSS EXPLORATION EXPENDITURES IN CANADA -- BY AREA

	1984	1985	Increase (Decrease) (%)
	------ $ millions ------		
PROVINCIAL LANDS			
British Columbia	196	204	4
Alberta	2173	2458	13
Saskatchewan	226	280	24
Other Provinces	33	32	(1)
TOTAL PROVINCIAL LANDS	2628	2974	13
CANADA LANDS			
Beaufort Sea	739	629	(15)
Labrador East	790	705	(11)
Atlantic Shelf South	608	446	(27)
Other Canada Lands	212	156	(26)
TOTAL CANADA LANDS	2349	1935	(18)
TOTAL CANADA	4978	4909	(1)

RATIO OF CAPITAL EXPENDITURES TO INTERNAL CASH FLOW

	Total[a]		Upstream[b]		Upstream[c] plus Downstream	
	1984	1985	1984	1985	1984	1985
	(%)		(%)		(%)	
Integrateds and Refiners	76	82	67	74	75	77
Oil and Gas Producers						
Senior Producers	70	74	62	64	63	65
Junior Producers	117	134	107	121	106	120
Total Oil and Gas Producers	84	90	74	78	75	78
TOTAL INDUSTRY	81	87	72	77	75	78
Canadian-Controlled	90	91	79	75	80	77
Foreign-Controlled	70	83	65	79	69	79

NOTES: (a) Total capital expenditures (net of PIP and other incentive grants) as a percentage of total internal cash flow. The calculations do not reflect changes in inventories. Had changes in inventories been included the reinvestment rate would have been 96% in 1985 vs. 79% in 1984.

(b) Upstream capital expenditures (net of PIP and other incentive grants) in Canada as a percentage of upstream cash flow.

(c) Upstream plus downstream ('petroleum-related') capital expenditures in Canada as a percentage of internal cash flow generated by petroleum-related activities.

DIVIDEND PAYMENTS

	1984	1985	Per cent of Net Income[a] 1984	1985
	--- $ millions ---		(%)	
Integrateds and Refiners	661	742	38	122
Oil and Gas Producers				
Senior Producers	507	783	29	36
Junior Producers	180	265	81	230
Total Oil and Gas Producers	687	1048	35	46
TOTAL INDUSTRY	1348	1790	36	62
Canadian-Controlled	631	832	43	108
Foreign-Controlled	716	958	32	45

NOTE: (a) Derived by dividing dividend payments for each company group by their net income on total operations (Appendix B, Schedule 1).

RATES OF RETURN: PETROLEUM AND OTHER INDUSTRIES

	1980	1981	1982	1983	1984	1985
			(%)			
RETURN ON SHAREHOLDERS' EQUITY[a]						
PETROLEUM	21.2	11.1	8.0	5.0	10.0	9.4
OTHER NON-FINANCIAL	14.8	11.3	5.0	8.9	10.8	9.8
Manufacturing	15.2	11.3	3.9	9.5	12.1	10.7
Mining	19.0	7.4	(1.8)	1.6	2.3	0.8
Other Industries	13.0	12.5	8.4	10.0	11.4	10.9
RETURN ON CAPITAL EMPLOYED[b]						
PETROLEUM	14.1	8.1	6.9	4.7	7.3	6.8
OTHER NON-FINANCIAL	10.3	8.7	5.1	7.1	8.3	7.8
Manufacturing	11.5	9.3	4.3	8.0	9.7	8.8
Mining	13.6	6.2	4.4	1.9	3.5	2.0
Other Industries	8.6	8.8	6.9	7.3	8.0	7.9

SOURCE: Statistics Canada 61-003, Industrial Corporations Quarterly.

NOTES: (a) Return on equity is defined as net profit after tax and extraordinary items, divided by average book equity. It measures the rate of return on shareholders' investment (paid-in capital and retained earnings). This measure is often used to compare the performance of companies that may vary by type and by size.

(b) Capital employed is defined as total assets, less current liabilities. The net income figures used to compute rate of return on capital employed have been adjusted by adding the after-tax interest expense on borrowed funds.

CANADIAN OWNERSHIP AND CONTROL BY COMPANY GROUP AND CATEGORY

	OWNERSHIP		CONTROL	
	1984	1985	1984	1985
	(%)		(%)	
UPSTREAM PLUS DOWNSTREAM REVENUES[a]				
Integrateds and Refiners	38.3	47.9	23.5	36.2
Oil and Gas Producers	46.1	49.3	54.3	58.2
TOTAL INDUSTRY	40.4	48.3	32.0	42.8
UPSTREAM REVENUES				
Integrateds and Refiners	38.4	49.3	21.0	35.2
Oil and Gas Producers	45.3	47.2	53.5	56.0
TOTAL INDUSTRY	42.5	48.0	40.5	48.4
OTHER MEASUREMENT BASES				
REVENUES				
Natural Gas	46.2	50.1	48.2	54.6
Crude Oil	39.9	46.6	35.0	43.6
Downstream	38.7	48.6	24.9	38.2
EXPLORATION EXPENDITURES	64.4	65.9	67.0	70.7
TOTAL ASSETS IN CANADA	52.4	56.4	53.5	59.3

NOTE: (a) Many petroleum companies have operations in non petroleum-related fields which are not included here. Upstream plus downstream revenues have been taken as a substitute for a more specifically defined figure reflecting every aspect of the Canadian petroleum industry.

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

TOTAL INDUSTRY

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	26561	27882	5.0	31870	34021	6.8	3111	2626	-15.6	1690	1750	3.5	63231	66278	4.8
ROYALTIES & OTHER PYMT	6440	6315	-1.9	0	0	--	0	0	--	0	0	--	6440	6315	-1.9
PGRT & OTHER TAXES	2237	2025	-9.4	1935	2359	21.9	27	24	-9.5	73	151	108.2	4271	4560	6.8
TOTAL REVENUE AFTER ROY.	17885	19542	9.3	29935	31662	5.8	3084	2601	-15.6	1618	1598	-1.2	52521	55404	5.5
COST OF GOODS SOLD	0	0	--	25568	26976	5.5	1094	863	-21.1	149	153	2.5	26811	27993	4.4
INTEREST EXPENSES	1656	1563	-5.6	307	150	-51.3	677	615	-9.1	161	117	-27.0	2800	2446	-12.7
OPERATING COSTS	4269	4773	11.8	2714	3165	16.6	805	936	16.3	502	568	13.1	8290	9441	13.9
R&D COST(EXCL. OIL SAND)	64	68	6.2	68	80	18.3	9	7	-16.9	1	0	-79.9	142	156	9.8
OTHER EXPENSES	564	606	7.5	175	43	-75.2	231	107	-53.6	54	60	11.1	1023	816	-20.2
OIL SANDS R&D EXPENSED	27	36	34.4	0	0	--	0	0	--	0	0	--	27	36	34.4
E&D EXPENSED	758	876	15.6	0	0	--	46	57	23.9	13	11	-13.8	816	943	15.6
DEPRECIATION	725	839	15.8	612	686	12.0	251	227	-9.5	123	49	-60.0	1711	1801	5.3
DEPLETION	1382	1627	17.7	0	0	--	10	10	4.7	288	380	31.9	1681	2017	20.0
WRITE-OFFS & AMORT.	611	486	-20.4	30	170	--	21	36	68.5	107	157	46.7	769	849	10.4
NON-CASH CHARGES AND E&D	3503	3864	10.3	642	856	33.3	327	330	0.6	531	597	12.5	5004	5647	12.9
INCOME BEFORE TAXES	7829	8667	10.7	461	391	-15.2	-59	-256	--	220	103	-53.2	8451	8905	5.4
FEDERAL INCOME TAX	2302	2489	8.1	2	127	--	-166	-162	--	154	128	-16.6	2292	2582	12.7
PROVINCIAL INCOME TAX	609	563	-7.5	3	25	--	-54	-32	--	0	0	--	557	556	-0.2
CURRENT INCOME TAX	2911	3052	4.9	5	152	--	-221	-193	--	154	128	-16.6	2849	3138	10.2
INC. AFT. CURR. INC. TAX	4918	5615	14.2	456	240	-47.4	162	-63	--	66	-25	--	5602	5767	2.9
DEFERRED INCOME TAX	1812	1741	-3.9	86	-116	--	76	28	-63.6	53	34	-36.2	2026	1686	-16.8
NET INCOME AFTER TAXES	3107	3874	24.7	371	356	-3.9	85	-91	--	13	-59	--	3576	4081	14.1
EXTR. GAINS OR LOSSES	8	-893	--	35	-129	--	-96	-251	--	187	94	-49.7	134	-1179	--
NET INC. AFT. EXTR. ITEM	3115	2981	-4.3	405	228	-43.8	-10	-342	--	201	35	-82.4	3710	2902	-21.8
INTERNAL CASH FLOW	8421	9479	12.6	1098	1096	-0.2	489	266	-45.5	597	572	-4.2	10606	11414	7.6

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

INTEGRATEDS & REFINERS

	——UPSTREAM——			——DOWNSTREAM——			--OTHER OPERATIONS--			--FOREIGN ACTIVITIES--			--TOTAL OPERATIONS--		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	8753	9019	3.0	27174	29823	9.7	1439	1381	-4.0	102	142	38.6	37467	40364	7.7
ROYALTIES & OTHER PYMT	2271	2161	-4.9	0	0	--	0	0	--	0	0	--	2271	2161	-4.9
PGRT & OTHER TAXES	750	643	-14.3	1643	2102	27.9	3	18	--	0	0	--	2397	2763	15.3
TOTAL REVENUE AFTER ROY.	5731	6214	8.4	25531	27721	8.6	1435	1363	-5.1	102	142	38.5	32799	35440	8.0
COST OF GOODS SOLD	0	0	--	22028	23931	8.6	867	860	-0.8	0	0	--	22895	24790	8.3
INTEREST EXPENSES	41	12	-71.4	239	100	-58.0	305	364	19.2	4	0	-94.6	590	476	-19.2
OPERATING COSTS	1530	1863	21.8	2236	2631	17.7	146	204	39.4	27	72	166.7	3939	4770	21.1
R&D COST(EXCL. OIL SAND)	28	35	22.9	58	72	25.4	7	6	-16.6	0	0	--	93	113	21.5
OTHER EXPENSES	100	136	35.9	174	43	-75.5	50	43	-14.0	1	0	-41.4	324	222	-31.6
OIL SANDS R&D EXPENSED	17	15	-8.6	0	0	--	0	0	--	0	0	--	17	15	-8.6
E&D EXPENSED	197	258	31.2	0	0	--	22	27	22.7	0	0	-34.8	219	285	30.2
DEPRECIATION	222	276	24.1	476	575	20.8	87	70	-19.7	3	2	-40.4	788	922	17.1
DEPLETION	293	332	13.4	0	0	--	2	2	30.6	17	20	15.1	312	354	13.6
WRITE-OFFS & AMORT.	179	217	21.6	24	55	132.4	-1	2	--	4	5	38.1	205	280	36.5
NON-CASH CHARGES AND E&D	907	1098	21.1	500	630	26.2	109	101	-7.6	24	27	11.3	1540	1856	20.5
INCOME BEFORE TAXES	3125	3071	-1.7	297	313	5.3	-49	-215	--	47	43	-8.1	3420	3212	-6.1
FEDERAL INCOME TAX	1049	908	-13.4	-57	50	--	-141	-189	--	29	26	-11.6	880	794	-9.7
PROVINCIAL INCOME TAX	282	210	-25.5	-18	2	--	-46	-35	--	0	0	--	218	177	-18.6
CURRENT INCOME TAX	1331	1118	-16.0	-76	52	--	-187	-224	--	29	26	-11.6	1097	972	-11.5
INC. AFT. CURR. INC. TAX	1794	1953	8.9	373	261	-30.0	138	10	-92.9	18	17	-2.1	2322	2241	-3.5
DEFERRED INCOME TAX	521	591	13.5	123	-3	--	132	-6	--	-5	-1	--	771	581	-24.7
NET INCOME AFTER TAXES	1273	1362	7.0	250	264	5.5	6	16	167.3	22	18	-17.3	1551	1660	7.0
EXTR. GAINS OR LOSSES	0	-678	--	35	-129	--	-35	-246	--	204	0	-100.0	203	-1053	--
NET INC. AFT. EXTR. ITEM	1273	684	-46.3	285	135	-52.5	-29	-230	--	226	18	-91.9	1754	607	-65.4
INTERNAL CASH FLOW	2701	3051	13.0	873	891	2.2	247	111	-55.2	42	44	5.6	3862	4097	6.1

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

JUNIOR OIL & GAS PRODUCERS

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	4572	4633	1.3	81	95	17.9	624	340	-45.6	957	1040	8.7	6234	6109	-2.0
ROYALTIES & OTHER PYMT	1117	1077	-3.6	0	0	--	0	0	--	0	0	--	1117	1077	-3.6
PGRT & OTHER TAXES	360	317	-11.7	0	0	--	0	0	--	11	109	--	371	427	15.0
TOTAL REVENUE AFTER ROY.	3096	3239	4.6	81	95	17.9	624	340	-45.6	946	931	-1.6	4746	4605	-3.0
COST OF GOODS SOLD	0	0	--	49	53	7.6	211	3	-98.4	40	19	-53.2	300	75	-75.1
INTEREST EXPENSES	640	663	3.6	5	6	34.5	86	16	-81.9	116	94	-18.9	847	779	-8.0
OPERATING COSTS	706	700	-0.9	13	15	16.0	176	242	37.6	327	364	11.2	1222	1320	8.1
R&D COST(EXCL. OIL SAND)	2	1	-44.4	0	0	--	0	1	70.4	1	0	-79.9	4	2	-42.9
OTHER EXPENSES	182	239	31.5	1	1	-34.3	67	15	-77.7	25	39	53.2	275	293	6.6
OIL SANDS R&D EXPENSED	2	0	--	0	0	--	0	0	--	0	0	--	2	0	--
E&D EXPENSED	42	53	26.4	0	0	--	3	0	-100.0	8	3	-67.7	53	55	5.0
DEPRECIATION	123	140	13.4	15	19	28.9	42	21	-49.4	106	34	-68.3	286	214	-25.3
DEPLETION	505	599	18.5	0	0	--	3	1	-58.7	129	233	80.7	636	833	30.8
WRITE-OFFS & AMORT.	142	107	-24.8	0	-3	--	23	7	-68.2	69	147	112.1	234	257	9.9
NON-CASH CHARGES AND E&D	814	898	10.3	15	15	5.3	71	30	-58.0	312	416	33.2	1211	1358	12.2
INCOME BEFORE TAXES	752	739	-1.8	-2	5	--	13	34	160.9	124	0	-99.9	888	777	-12.4
FEDERAL INCOME TAX	82	87	6.9	1	1	-8.1	0	12	--	83	84	1.7	165	185	11.9
PROVINCIAL INCOME TAX	-64	-53	--	0	0	-10.4	0	0	--	0	0	102.1	-64	-52	--
CURRENT INCOME TAX	18	35	97.4	1	1	-8.8	-1	12	--	83	84	1.8	101	132	31.0
INC. AFT. CURR. INC. TAX	735	704	-4.1	-3	4	--	13	21	58.2	42	-84	--	787	645	-18.0
DEFERRED INCOME TAX	417	370	-11.3	-4	0	--	12	2	-79.4	59	14	-76.4	484	386	-20.2
NET INCOME AFTER TAXES	317	334	5.3	1	4	298.3	2	19	--	-18	-98	--	302	259	-14.5
EXTR. GAINS OR LOSSES	-1	-224	--	0	0	--	-61	-13	--	-20	93	--	-82	-143	--
NET INC. AFT. EXTR. ITEM	316	110	-65.1	1	4	298.3	-59	6	--	-38	-5	--	221	115	-47.8
INTERNAL CASH FLOW	1549	1602	3.5	12	19	62.2	84	51	-39.4	353	331	-6.2	1998	2003	0.3

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

SENIOR OIL & GAS PRODUCERS

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	13236	14230	7.5	4615	4103	-11.1	1048	905	-13.6	631	567	-10.1	19530	19806	1.4
ROYALTIES & OTHER PYMT	3052	3077	0.8	0	0	--	0	0	--	0	0	--	3052	3077	0.8
PGRT & OTHER TAXES	1127	1064	-5.5	292	257	-11.9	24	6	-72.9	61	42	-31.4	1503	1370	-8.9
TOTAL REVENUE AFTER ROY.	9058	10088	11.4	4324	3846	-11.0	1024	899	-12.2	570	525	-7.8	14975	15359	2.6
COST OF GOODS SOLD	0	0	--	3491	2993	-14.3	16	0	-100.0	109	134	22.8	3616	3127	-13.5
INTEREST EXPENSES	975	889	-8.8	63	43	-32.7	285	236	-17.4	40	23	-43.5	1363	1190	-12.7
OPERATING COSTS	2033	2210	8.7	465	518	11.4	483	490	1.5	149	133	-10.6	3129	3351	7.1
R&D COST(EXCL. OIL SAND)	34	33	-4.8	10	8	-21.2	1	1	-48.2	0	0	--	46	41	-9.8
OTHER EXPENSES	282	231	-18.1	0	0	--	114	50	-56.6	28	21	-26.0	424	301	-29.0
OIL SANDS R&D EXPENSED	6	21	154.1	0	0	--	0	0	--	0	0	--	6	21	154.1
E&D EXPENSED	519	565	8.8	0	0	--	20	29	44.1	5	8	76.2	544	602	10.7
DEPRECIATION	379	424	11.7	122	92	-24.4	122	136	11.5	14	14	0.2	637	666	4.5
DEPLETION	585	696	19.0	0	0	--	5	7	28.3	142	128	-10.2	733	831	13.4
WRITE-OFFS & AMORT.	290	162	-44.2	6	118	--	0	27	--	34	5	-84.7	330	312	-5.5
NON-CASH CHARGES AND E&D	1782	1868	4.8	128	210	64.6	148	199	34.8	195	155	-20.4	2253	2433	8.0
INCOME BEFORE TAXES	3952	4857	22.9	166	74	-55.5	-23	-75	--	49	60	22.6	4144	4915	18.6
FEDERAL INCOME TAX	1171	1493	27.5	59	76	30.1	-25	15	--	42	18	-56.2	1247	1603	28.5
PROVINCIAL INCOME TAX	391	406	3.8	21	22	5.8	-8	4	--	0	0	--	404	432	6.9
CURRENT INCOME TAX	1562	1899	21.6	80	98	23.7	-33	19	--	42	18	-56.8	1651	2035	23.2
INC. AFT. CURR. INC. TAX	2390	2958	23.8	86	-25	--	10	-94	--	7	42	--	2493	2881	15.5
DEFERRED INCOME TAX	873	780	-10.7	-33	-113	--	-67	32	--	-2	21	--	770	719	-6.7
NET INCOME AFTER TAXES	1517	2178	43.6	120	89	-25.9	78	-126	--	9	21	134.0	1723	2162	25.5
EXTR. GAINS OR LOSSES	9	8	-7.3	0	0	--	0	8	--	4	1	-62.4	13	18	40.7
NET INC. AFT. EXTR. ITEM	1526	2187	43.3	120	89	-25.9	78	-118	--	13	22	77.9	1735	2180	25.6
INTERNAL CASH FLOW	4172	4826	15.7	214	186	-13.3	158	105	-33.6	202	197	-2.5	4746	5313	12.0

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

TOTAL OIL & GAS PRODUCERS

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	17808	18863	5.9	4696	4198	-10.6	1672	1245	-25.5	1588	1608	1.2	25764	25914	0.6
ROYALTIES & OTHER PYMT	4168	4154	-0.3	0	0	--	0	0	--	0	0	--	4168	4154	-0.3
PGRT & OTHER TAXES	1486	1382	-7.0	292	257	-11.9	24	6	-72.9	73	151	108.0	1874	1796	-4.2
TOTAL REVENUE AFTER ROY.	12154	13328	9.7	4404	3941	-10.5	1648	1239	-24.8	1515	1457	-3.9	19722	19964	1.2
COST OF GOODS SOLD	0	0	--	3540	3046	-14.0	227	3	-98.5	149	153	2.5	3916	3202	-18.2
INTEREST EXPENSES	1615	1552	-3.9	68	49	-27.9	372	251	-32.4	156	117	-25.2	2211	1969	-10.9
OPERATING COSTS	2739	2910	6.3	478	533	11.5	658	732	11.1	475	496	4.4	4351	4671	7.4
R&D COST(EXCL. OIL SAND)	36	34	-6.9	10	8	-21.2	2	1	-17.9	1	0	-79.9	50	44	-12.2
OTHER EXPENSES	464	470	1.3	1	1	-28.2	181	64	-64.4	53	59	11.6	699	594	-15.0
OIL SANDS R&D EXPENSED	10	21	105.9	0	0	--	0	0	--	0	0	--	10	21	105.9
E&D EXPENSED	561	618	10.1	0	0	--	23	29	25.1	13	11	-13.4	597	658	10.2
DEPRECIATION	503	564	12.1	136	111	-18.6	164	158	-4.1	120	47	-60.5	923	880	-4.7
DEPLETION	1090	1295	18.8	0	0	--	8	8	-0.9	271	361	33.0	1369	1664	21.5
WRITE-OFFS & AMORT.	432	269	-37.8	6	115	--	23	34	50.0	103	152	47.0	564	569	0.9
NON-CASH CHARGES AND E&D	2596	2766	6.5	142	226	58.5	218	229	4.7	507	571	12.6	3464	3791	9.5
INCOME BEFORE TAXES	4704	5596	19.0	164	79	-52.2	-10	-42	--	173	60	-65.4	5032	5693	13.1
FEDERAL INCOME TAX	1253	1581	26.2	60	77	29.5	-25	27	--	125	102	-17.8	1412	1788	26.6
PROVINCIAL INCOME TAX	327	353	8.0	21	23	5.5	-9	4	--	0	0	--	340	379	11.6
CURRENT INCOME TAX	1580	1934	22.4	81	100	23.2	-33	31	--	124	102	-17.8	1752	2167	23.7
INC. AFT. CURR. INC. TAX	3124	3662	17.2	83	-21	--	23	-73	--	49	-42	--	3280	3526	7.5
DEFERRED INCOME TAX	1291	1150	-10.9	-37	-114	--	-56	34	--	57	35	-39.3	1255	1105	-11.9
NET INCOME AFTER TAXES	1834	2512	37.0	121	92	-23.3	79	-107	--	-9	-77	--	2025	2421	19.5
EXTR. GAINS OR LOSSES	8	-215	--	0	0	--	-61	-5	--	-16	94	--	-69	-126	--
NET INC. AFT. EXTR. ITEM	1842	2297	24.7	121	92	-23.3	19	-112	--	-25	17	--	1956	2295	17.3
INTERNAL CASH FLOW	5721	6428	12.4	226	205	-9.4	242	156	-35.6	556	528	-4.9	6744	7317	8.5

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

CANADIAN-CONTROLLED COMPANIES

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	12461	13410	7.6	12354	12992	5.2	2513	2074	-17.5	1327	1427	7.5	28655	29903	4.4
ROYALTIES & OTHER PYMT	2647	2708	2.3	0	0	--	0	0	--	0	0	--	2647	2708	2.3
PGRT & OTHER TAXES	1010	926	-8.3	760	898	18.1	7	7	9.9	25	122	389.5	1802	1954	8.4
TOTAL REVENUE AFTER ROY.	8803	9777	11.1	11594	12094	4.3	2507	2066	-17.6	1302	1304	0.2	24205	25241	4.3
COST OF GOODS SOLD	0	0	--	9852	10145	3.0	1030	843	-18.1	149	153	2.5	11031	11141	1.0
INTEREST EXPENSES	1516	1403	-7.4	220	85	-61.1	379	280	-26.0	128	102	-20.0	2243	1871	-16.6
OPERATING COSTS	2061	2261	9.7	879	1220	38.8	608	679	11.6	414	445	7.5	3963	4605	16.2
R&D COST(EXCL. OIL SAND)	19	13	-28.7	11	9	-20.0	1	1	30.0	1	0	-79.9	32	23	-26.6
OTHER EXPENSES	391	431	10.3	172	26	-84.8	213	66	-68.7	47	48	2.9	823	572	-30.5
OIL SANDS R&D EXPENSED	4	9	162.8	0	0	--	0	0	--	0	0	--	4	9	162.8
E&D EXPENSED	209	155	-26.0	0	0	--	7	12	73.9	8	1	-92.1	224	167	-25.2
DEPRECIATION	410	476	16.0	327	324	-1.1	200	191	-4.3	115	43	-62.1	1052	1035	-1.7
DEPLETION	1095	1276	16.6	0	0	--	9	10	5.0	229	318	39.1	1333	1604	20.4
WRITE-OFFS & AMORT.	167	138	-17.4	27	142	--	9	11	17.2	67	119	76.7	271	410	51.5
NON-CASH CHARGES AND E&D	1885	2054	9.0	354	466	31.6	226	224	-0.6	419	481	14.9	2883	3225	11.9
INCOME BEFORE TAXES	2931	3613	23.3	106	143	34.6	52	-27	--	143	74	-48.2	3232	3803	17.7
FEDERAL INCOME TAX	308	590	91.5	17	120	--	-21	34	--	109	107	-1.4	412	850	106.3
PROVINCIAL INCOME TAX	100	84	-15.9	1	22	--	-6	5	--	0	0	--	94	111	18.4
CURRENT INCOME TAX	408	673	65.2	17	142	--	-28	39	--	108	107	-1.4	506	961	90.0
INC. AFT. CURR. INC. TAX	2523	2940	16.5	89	1	-98.9	79	-66	--	35	-33	--	2726	2842	4.3
DEFERRED INCOME TAX	1493	1290	-13.6	-24	-154	--	-70	10	--	49	16	-67.4	1447	1162	-19.7
NET INCOME AFTER TAXES	1031	1650	60.0	113	155	37.3	150	-76	--	-14	-48	--	1279	1680	31.3
EXTR. GAINS OR LOSSES	33	-820	--	35	-129	--	-50	-59	--	187	94	-49.7	205	-913	--
NET INC. AFT. EXTR. ITEM	1064	830	-22.0	147	26	-82.3	100	-135	--	174	46	-73.6	1484	767	-48.3
INTERNAL CASH FLOW	4408	4994	13.3	443	467	5.4	305	158	-48.1	453	448	-1.1	5609	6067	8.2

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

FOREIGN-CONTROLLED COMPANIES

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	14100	14472	2.6	19516	21029	7.8	597	552	-7.6	364	323	-11.3	34577	36376	5.2
ROYALTIES & OTHER PYMT	3792	3607	-4.9	0	0	--	0	0	--	0	0	--	3792	3607	-4.9
PGRT & OTHER TAXES	1226	1099	-10.4	1175	1461	24.4	20	17	-15.9	48	29	-39.3	2469	2606	5.6
TOTAL REVENUE AFTER ROY.	9081	9766	7.5	18341	19568	6.7	577	535	-7.3	316	294	-7.0	28316	30163	6.5
COST OF GOODS SOLD	0	0	--	15716	16832	7.1	64	20	-68.7	0	0	--	15780	16852	6.8
INTEREST EXPENSES	139	160	15.0	87	64	-26.5	298	335	12.3	33	15	-54.4	557	574	3.0
OPERATING COSTS	2208	2512	13.8	1834	1944	6.0	197	257	30.7	88	123	39.5	4327	4836	11.8
R&D COST(EXCL. OIL SAND)	46	55	20.6	57	72	25.6	8	6	-21.1	0	0	--	111	133	20.2
OTHER EXPENSES	173	175	1.0	2	17	--	18	41	123.1	7	11	70.0	200	244	21.7
OIL SANDS R&D EXPENSED	24	27	15.0	0	0	--	0	0	--	0	0	--	24	27	15.0
E&D EXPENSED	548	721	31.5	0	0	--	39	44	14.9	5	10	108.1	592	776	31.0
DEPRECIATION	315	363	15.5	285	362	27.1	51	36	-29.8	8	6	-28.3	658	767	16.5
DEPLETION	288	351	21.8	0	0	--	0	0	-7.9	60	63	4.3	348	414	18.8
WRITE-OFFS & AMORT.	444	348	-21.6	4	29	--	12	25	108.2	39	38	-4.5	498	439	-11.9
NON-CASH CHARGES AND E&D	1618	1810	11.9	288	391	35.5	102	105	3.3	112	116	3.6	2121	2422	14.2
INCOME BEFORE TAXES	4898	5054	3.2	355	249	-30.0	-110	-230	--	77	29	-62.6	5220	5102	-2.3
FEDERAL INCOME TAX	1994	1899	-4.8	-14	7	--	-145	-195	--	45	21	-53.2	1880	1732	-7.9
PROVINCIAL INCOME TAX	509	479	-5.9	2	3	26.6	-48	-37	--	0	0	-43.3	464	445	-3.9
CURRENT INCOME TAX	2503	2379	-5.0	-12	10	--	-193	-232	--	45	21	-53.1	2343	2177	-7.1
INC. AFT. CURR. INC. TAX	2395	2675	11.7	367	239	-35.0	83	3	-96.6	31	8	-76.1	2876	2924	1.7
DEFERRED INCOME TAX	319	451	41.4	109	37	-66.0	147	18	-87.7	4	18	323.7	579	524	-9.6
NET INCOME AFTER TAXES	2076	2224	7.2	258	202	-21.8	-64	-15	--	27	-10	--	2297	2400	4.5
EXTR. GAINS OR LOSSES	-25	-73	--	0	0	--	-46	-192	--	0	0	--	-71	-265	--
NET INC. AFT. EXTR. ITEM	2051	2151	4.9	258	202	-21.8	-110	-207	--	27	-10	--	2226	2135	-4.1
INTERNAL CASH FLOW	4013	4485	11.8	656	629	-4.0	185	108	-41.4	144	124	-13.8	4997	5347	7.0

SCHEDULE 2(a)

FINANCIAL PERFORMANCE FOR MAIN BUSINESS SEGMENTS

UPSTREAM OPERATIONS

	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	('000 M3)		(%)	('000 M3)		(%)	('000 M3)		(%)
PRODUCTION OF OIL EQUIVALENT	150612	154761	2.8	73848	77230	4.6	76764	77532	1.0
KEY FINANCIAL ITEMS	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
GROSS REVENUE	26561	27882	5.0	12461	13410	7.6	14100	14472	2.6
CASH INCOME	8421	9479	12.6	4408	4994	13.3	4013	4485	11.8
NET INCOME	3107	3874	24.7	1031	1650	60.0	2076	2224	7.2
NET INCOME PLUS INTEREST	4762	5437	14.2	2547	3053	19.9	2215	2384	7.7
CAPITAL EMPLOYED	50879	54584	7.3	31293	32779	4.7	19586	21805	11.3
UNIT REVENUES AND COSTS	($/M3)		(%)	($/M3)		(%)	($/M3)		(%)
GROSS REVENUE	176.35	180.16	2.2	168.74	173.64	2.9	183.68	186.65	1.6
ROYALTIES & OTHER PYMT	42.76	40.80	-4.6	35.85	35.06	-2.2	49.40	46.52	-5.8
PGRT & OTHER TAXES	14.85	13.09	-11.9	13.68	11.99	-12.3	15.97	14.17	-11.3
REVENUES AFTER RYLTIES & TAXES	118.75	126.27	6.3	119.21	126.59	6.2	118.30	125.96	6.5
INTEREST EXPENSES	10.99	10.10	-8.1	20.53	18.17	-11.5	1.81	2.06	13.9
OPERATING COSTS (EXCL.RSRCH)	28.34	30.84	8.8	27.91	29.28	4.9	28.76	32.40	12.7
RESEARCH & OTHER EXPENSES	4.17	4.36	4.5	5.55	5.76	3.8	2.85	2.96	4.1
CASH INCOME BEFORE TAXES	75.24	80.97	7.6	65.21	73.39	12.5	84.88	88.53	4.3
E&D & OIL SANDS R&D EXPENSED	5.21	5.89	13.1	2.88	2.12	-26.3	7.45	9.65	29.5
DEPRECIATION	4.81	5.42	12.7	5.56	6.16	10.9	4.10	4.69	14.3
DEPLETION	9.18	10.51	14.5	14.82	16.52	11.5	3.75	4.52	20.6
WRITE-OFFS	4.06	3.14	-22.6	2.27	1.79	-21.0	5.78	4.49	-22.4
NET INCOME BEFORE TAXES	51.98	56.00	7.7	39.69	46.79	17.9	63.80	65.18	2.2
FEDERAL INCOME TAX	15.28	16.08	5.2	4.17	7.63	83.2	25.97	24.49	-5.7
PROVINCIAL INCOME TAX	4.04	3.64	-10.0	1.35	1.09	-19.6	6.63	6.18	-6.8
DEFERRED INCOME TAX	12.03	11.25	-6.5	20.21	16.71	-17.3	4.15	5.81	40.0
NET INCOME AFTER TAXES	20.63	25.03	21.4	13.96	21.36	53.0	27.04	28.69	6.1
EXTRAORDINARY GAINS OR LOSSES	0.00	-5.77	--	0.00	-10.62	--	0.00	-0.95	--
NET INCOME AFTER EXTR. ITEMS	20.68	19.26	-6.9	14.41	10.74	-25.4	26.72	27.74	3.8
INTERNAL CASH FLOW	55.91	61.25	9.5	59.70	64.66	8.3	52.27	57.85	10.7
RATIOS	(%)	(%)		(%)	(%)		(%)	(%)	
NATURAL GAS AS A PERCENT OF TOTAL PRODUCTION	40.3	41.6	N/A	46.3	46.8	N/A	34.6	36.3	N/A
COOP AS A PERCENT OF CONVENTIONAL OIL PRODUCTION	62.4	56.1	N/A	55.5	52.1	N/A	67.6	59.2	N/A

SCHEDULE 2(a)

FINANCIAL PERFORMANCE FOR MAIN BUSINESS SEGMENTS

UPSTREAM OPERATIONS (CONTINUED)

	INTEGRATEDS/REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
	('000 M3)		(%)	('000 M3)		(%)	('000 M3)		(%)
PRODUCTION OF OIL EQUIVALENT	48692	49497	1.7	29003	29601	2.1	72916	75663	3.8
KEY FINANCIAL ITEMS	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
GROSS REVENUE	8753	9019	3.0	4572	4633	1.3	13236	14230	7.5
CASH INCOME	2701	3051	13.0	1549	1602	3.5	4172	4826	15.7
NET INCOME	1273	1362	7.0	317	334	5.3	1517	2178	43.6
NET INCOME PLUS INTEREST	1314	1373	4.5	957	997	4.2	2491	3067	23.1
CAPITAL EMPLOYED	13570	13973	3.0	14645	15786	7.8	22664	24826	9.5
UNIT REVENUES AND COSTS	($/M3)		(%)	($/M3)		(%)	($/M3)		(%)
GROSS REVENUE	179.75	182.20	1.4	157.63	156.53	-0.7	181.53	188.07	3.6
ROYALTIES & OTHER PYMT	46.65	43.66	-6.4	38.50	36.37	-5.5	41.85	40.67	-2.8
PGRT & OTHER TAXES	15.41	13.00	-15.7	12.40	10.73	-13.5	15.45	14.07	-8.9
REVENUES AFTER RYLTIES & TAXES	117.69	125.55	6.7	106.74	109.43	2.5	124.22	133.33	7.3
INTEREST EXPENSES	0.84	0.00	-71.9	22.06	22.39	1.5	13.37	11.75	-12.1
OPERATING COSTS (EXCL.RSRCH)	31.42	37.63	19.8	24.35	23.64	-2.9	27.88	29.21	4.8
RESEARCH & OTHER EXPENSES	2.64	3.45	30.9	6.33	8.11	28.0	4.34	3.48	-19.7
CASH INCOME BEFORE TAXES	82.80	84.23	1.7	54.00	55.29	2.4	78.64	88.89	13.0
E&D & OIL SANDS R&D EXPENSED	4.38	5.52	26.0	1.50	1.77	17.9	7.24	7.75	7.1
DEPRECIATION	4.56	5.57	22.1	4.26	4.73	11.1	5.20	5.60	7.6
DEPLETION	6.01	6.70	11.5	17.41	20.22	16.2	8.02	9.20	14.7
WRITE-OFFS	3.67	4.39	19.7	4.90	3.61	-26.3	3.98	2.14	-46.2
NET INCOME BEFORE TAXES	64.17	62.04	-3.3	25.94	24.96	-3.7	54.20	64.20	18.4
FEDERAL INCOME TAX	21.54	18.35	-14.8	2.82	2.95	4.7	16.06	19.73	22.9
PROVINCIAL INCOME TAX	5.79	4.24	-26.7	-2.22	-1.78	--	5.37	5.37	--
DEFERRED INCOME TAX	10.70	11.94	11.6	14.39	12.51	-13.1	11.97	10.30	-14.0
NET INCOME AFTER TAXES	26.14	27.51	5.3	10.94	11.28	3.1	20.80	28.79	38.4
EXTRAORDINARY GAINS OR LOSSES	0.00	-13.70	--	0.00	-7.55	--	0.00	0.00	-10.7
NET INCOME AFTER EXTR. ITEMS	26.14	13.81	-47.2	10.91	3.73	-65.8	20.92	28.90	38.1
INTERNAL CASH FLOW	55.47	61.64	11.1	53.40	54.12	1.4	57.21	63.78	11.5
RATIOS	(%)	(%)		(%)	(%)		(%)	(%)	
NATURAL GAS AS A PERCENT OF TOTAL PRODUCTION	28.0	29.2	N/A	57.9	59.0	N/A	41.6	42.8	N/A
COOP AS A PERCENT OF CONVENTIONAL OIL PRODUCTION	68.3	58.4	N/A	40.4	43.5	N/A	65.7	58.8	N/A

SCHEDULE 2(b)

FINANCIAL PERFORMANCE FOR MAIN BUSINESS SEGMENTS

DOWNSTREAM OPERATIONS

	TOTAL DOWNSTREAM			PETRO-CHEMICALS AND OTHER			TOTAL OIL PRODUCTS OPERATIONS (1)					
	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($/M3)	1985	CHANGE (%)
TOTAL REVENUE	31870	34021	6.8	4036	4321	7.1	27834	29699	6.7	327.00	347.44	6.3
SALES, EXCISE & OTHER TAXES	1935	2359	21.9	3	8	135.2	1931	2351	21.7	22.94	27.83	21.3
COST OF GOODS SOLD	25568	26976	5.5	3468	3748	8.1	22100	23229	5.1	259.61	271.67	4.6
OPERATING COSTS	2714	3165	16.6	279	309	11.0	2435	2855	17.3	28.57	33.29	16.5
R&D COSTS (EXCLUD. OIL SAND)	68	80	18.3	17	27	57.7	51	53	5.1	0.60	0.63	4.8
OTHER EXPENSES	175	43	-75.2	0	-1	--	175	44	-74.9	1.91	0.00	-77.9
CASH INCOME BEFORE INT.& TAXES	1411	1397	-1.0	269	229	-14.7	1142	1168	2.3	13.37	13.60	1.7
INTEREST EXPENSES	307	150	-51.3	29	24	-16.8	278	126	-54.9	3.22	1.40	-56.5
CASH INCOME BEFORE TAXES	1104	1248	13.1	240	205	-14.4	864	1042	20.7	10.15	12.20	20.2
CURRENT INCOME TAX	5	152	--	-24	-10	--	30	162	--	0.00	1.91	--
INTERNAL CASH FLOW	1098	1096	-0.2	264	215	-18.5	834	881	5.6	9.80	10.29	5.0
DEPREC.& OTHER NON-CASH CHG.	642	856	33.3	141	186	32.3	501	670	33.6	5.86	7.85	33.9
INCOME AFTER CURR. INCOME TAX	456	240	-47.4	124	29	-76.3	332	210	-36.7	3.94	2.44	-38.0
DEFERRED INCOME TAX	86	-116	--	48	-18	--	38	-98	--	0.00	-1.19	--
NET INCOME AFTER TAXES	371	356	-3.9	76	48	-37.4	295	309	4.8	3.50	3.63	3.7

	NATIONAL REFINERS-MARKETERS			REGIONAL REFINERS-MARKETERS		
	1984 ($/M3)	1985	CHANGE (%)	1984 ($/M3)	1985	CHANGE (%)
TOTAL REVENUE	330.48	351.59	6.4	316.01	334.18	5.8
SALES, EXCISE & OTHER TAXES	23.61	28.91	22.4	20.80	24.40	17.3
COST OF GOODS SOLD	260.82	274.39	5.2	255.81	262.97	2.8
OPERATING COSTS	30.07	35.82	19.1	23.82	25.20	5.8
R&D COSTS (EXCLUD. OIL SAND)	0.77	0.78	1.2	0.00	0.00	97.6
OTHER EXPENSES	2.14	0.00	--	1.16	1.78	53.6
CASH INCOME BEFORE INT.& TAXES	13.07	11.70	-10.5	14.34	19.67	37.2
INTEREST EXPENSES	0.91	0.59	-35.5	10.53	4.00	-62.0
CASH INCOME BEFORE TAXES	12.16	11.11	-8.6	3.81	15.68	311.4
CURRENT INCOME TAX	1.44	1.47	1.9	-3.12	3.30	--
INTERNAL CASH FLOW	10.71	9.64	-10.0	6.93	12.38	78.7
DEPREC.& OTHER NON-CASH CHG.	5.37	7.64	42.4	7.43	8.52	14.6
INCOME AFTER CURR. INCOME TAX	5.35	2.00	-62.6	-0.50	3.86	--
DEFERRED INCOME TAX	0.65	-1.45	--	0.00	0.00	--
NET INCOME AFTER TAXES	4.69	3.45	-26.5	0.00	4.23	--
RATIOS	(%)	(%)		(%)	(%)	
'CLEAN PRODUCTS' SALES AS A % OF TOTAL SALES VOLUME	80.84	81.21	0.5	72.54	75.33	3.9
NET SALES IN CANADA AS A % OF TOTAL SALES VOLUME	92.37	91.97	-0.4	85.83	84.40	-1.7
EXPORT SALES AS A % OF TOTAL SALES VOLUME	4.75	6.69	40.8	11.73	13.11	11.7

(1) THE CALCULATION OF UNIT COSTS AND REVENUES IS BASED ON TOTAL SALES VOLUME DATA FOR THE AGGREGATES MENTIONED.

SCHEDULE 3

SOURCES AND USES OF FUNDS

	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
CASH GENERATED BY OPERATION	10606	11414	7.6	5609	6067	8.2	4997	5347	7.0
NET INCREASE IN LONG-TERM DEBT	1219	2076	70.3	762	1510	98.1	457	566	24.0
ISSUE OF SHARES	1815	1995	9.9	1483	1475	-0.6	332	521	56.7
GRANTS (PIP & OTHERS)	1881	1862	-1.0	1792	1656	-7.6	89	206	132.0
ALL OTHER SOURCES	5182	4141	-20.1	4708	3270	-30.5	474	872	84.0
WORKING CAPITAL DECREASE	932	2808	201.2	416	1677	303.0	516	1131	119.2
TOTAL SOURCES OF FUNDS	21635	24297	12.3	14771	15655	6.0	6864	8642	25.9
TOTAL CAPITAL EXPEND.IN CANADA	9776	10889	11.4	6211	6347	2.2	3566	4541	27.4
CAPITAL EXPENDITURE IN U.S.A.	317	681	114.8	302	565	87.1	15	116	--
OTHER FOREIGN CAPITAL EXPEND.	360	401	11.5	332	381	14.9	28	20	-28.9
TOTAL FOREIGN CAPITAL EXPEND.	677	1082	59.9	634	946	49.3	43	136	215.2
TOTAL COMPANY CAPITAL EXPEND.	10453	11971	14.5	6844	7293	6.6	3609	4677	29.6
DIVIDENDS: COMMON SHARES	34	1509	--	34	597	--	0	911	--
PREFERRED SHARES	0	281	--	0	234	--	0	47	--
TOTAL	1348	1790	32.8	631	832	31.7	716	958	33.7
REDUCTION OF EQUITY	166	584	252.4	96	475	392.8	69	110	57.7
TOTAL DIVIDEND & EQUITY REDUC.	1513	2374	56.9	728	1307	79.5	786	1067	35.9
NET DECREASE IN LONG-TERM DEBT	2575	1884	-26.8	2040	1366	-33.0	534	517	-3.2
ALL OTHER APPLICATIONS	2592	5921	128.5	1741	4492	158.1	851	1429	68.0
WORKING CAPITAL INCREASE	4503	2148	-52.3	3418	1197	-65.0	1084	951	-12.3
TOTAL APPLICATIONS OF FUNDS	21635	24297	12.3	14771	15655	6.0	6864	8642	25.9
	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
CASH GENERATED BY OPERATION	3862	4097	6.1	1998	2003	0.3	4746	5313	12.0
NET INCREASE IN LONG-TERM DEBT	70	449	--	1070	1055	-1.4	79	572	--
ISSUE OF SHARES	667	865	29.7	1085	807	-25.6	63	323	--
GRANTS (PIP & OTHERS)	577	620	7.3	508	464	-8.6	796	779	-2.2
ALL OTHER SOURCES	1086	1027	-5.5	692	1772	156.2	3404	1342	-60.6
WORKING CAPITAL DECREASE	81	1324	--	522	702	34.5	329	782	137.9
TOTAL SOURCES OF FUNDS	6345	8381	32.1	5874	6804	15.8	9417	9112	-3.2
TOTAL CAPITAL EXPEND.IN CANADA	3457	3972	14.9	2401	2638	9.8	3918	4279	9.2
CAPITAL EXPENDITURE IN U.S.A.	0	0	-13.4	165	232	41.2	152	448	194.4
OTHER FOREIGN CAPITAL EXPEND.	48	59	22.9	275	314	14.5	37	28	-25.8
TOTAL FOREIGN CAPITAL EXPEND.	48	59	22.8	439	547	24.5	189	476	151.2
TOTAL COMPANY CAPITAL EXPEND.	3505	4031	15.0	2840	3185	12.1	4108	4755	15.7
DIVIDENDS: COMMON SHARES	0	602	--	0	182	--	34	725	--
PREFERRED SHARES	0	140	--	0	83	--	0	58	--
TOTAL	661	742	12.2	180	265	47.3	507	783	54.5
REDUCTION OF EQUITY	13	92	--	109	222	103.2	43	270	--
TOTAL DIVIDEND & EQUITY REDUC.	674	833	23.6	289	487	68.4	550	1054	91.5
NET DECREASE IN LONG-TERM DEBT	795	336	-57.7	1020	920	-9.8	759	627	-17.4
ALL OTHER APPLICATIONS	735	2269	208.5	1292	1839	42.3	564	1813	221.5
WORKING CAPITAL INCREASE	635	911	43.5	432	373	-13.8	3436	864	-74.9
TOTAL APPLICATIONS OF FUNDS	6345	8381	32.1	5874	6804	15.8	9417	9112	-3.2

Appendix B-12

SCHEDULE 4

UPSTREAM CANADIAN CAPITAL EXPENDITURES BY LOCATION

	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
	TOTAL CANADIAN			PROVINCES			CANADA LANDS		
TOTAL INDUSTRY									
LAND & LEASE, GEOL.& GEOPH.	1630	1692	3.8	1431	1555	8.6	200	137	-31.2
EXPLORATION DRILLING	3347	3217	-3.9	1197	1419	18.5	2150	1798	-16.4
TOTAL EXPLORATION	4978	4909	-1.4	2628	2974	13.1	2349	1935	-17.6
DEVELOPMENT DRILLING	1125	1518	34.9	1095	1480	35.2	30	37	24.5
PRODUCTION	1266	1699	34.3	1180	1672	41.6	85	28	-67.2
NON-CONV.HEAVY OIL & OIL SANDS	586	1131	93.2	586	1131	93.2	0	0	--
TOTAL UPSTREAM	7954	9257	16.4	5489	7257	32.2	2465	2001	-18.8
CANADIAN-CONTROLLED COMPANIES									
LAND & LEASE, GEOL.& GEOPH.	950	966	1.7	787	862	9.5	163	104	-36.0
EXPLORATION DRILLING	2771	2500	-9.8	818	949	16.0	1953	1551	-20.6
TOTAL EXPLORATION	3721	3466	-6.8	1605	1811	12.8	2116	1656	-21.8
DEVELOPMENT DRILLING	686	933	36.0	684	923	34.9	2	10	--
PRODUCTION	651	821	26.2	651	821	26.2	0	0	9.8
NON-CONV.HEAVY OIL & OIL SANDS	209	277	32.3	209	277	32.3	0	0	--
TOTAL UPSTREAM	5267	5497	4.4	3149	3831	21.7	2118	1666	-21.3
FOREIGN-CONTROLLED COMPANIES									
LAND & LEASE, GEOL.& GEOPH.	681	726	6.7	644	693	7.6	37	33	-9.6
EXPLORATION DRILLING	576	717	24.4	379	470	24.0	197	247	25.3
TOTAL EXPLORATION	1257	1443	14.8	1023	1163	13.7	233	280	19.8
DEVELOPMENT DRILLING	439	584	33.2	411	558	35.7	28	27	-3.4
PRODUCTION	615	879	42.9	530	851	60.6	85	28	-67.2
NON-CONV.HEAVY OIL & OIL SANDS	376	854	127.0	376	854	127.0	0	0	--
TOTAL UPSTREAM	2687	3760	40.0	2340	3426	46.4	347	335	-3.5

SCHEDULE 5

CAPITAL EXPENDITURES BY ACTIVITY

	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
	— TOTAL INDUSTRY —			– CANADIAN CONTROLLED –			— FOREIGN CONTROLLED —		
EXPLORATION	4978	4909	-1.4	3721	3466	-6.8	1257	1443	14.8
DEVELOPMENT	1125	1518	34.9	686	933	36.0	439	584	33.2
PRODUCTION	1266	1699	34.3	651	821	26.2	615	879	42.9
OIL SANDS	586	1131	93.2	209	277	32.3	376	854	127.0
TOTAL UPSTREAM	7954	9257	16.4	5267	5497	4.4	2687	3760	40.0
TOTAL DOWNSTREAM	1055	941	-10.8	421	433	2.9	634	508	-19.9
URANIUM	8	1	-94.0	0	0	--	8	1	-94.0
COAL	141	79	-43.8	7	10	46.6	134	69	-48.2
ALL OTHERS	619	611	-1.3	516	408	-21.0	102	203	98.4
TOTAL CAPITAL EXPEND.IN CANADA	9776	10889	11.4	6211	6347	2.2	3566	4541	27.4
TOTAL CAPITAL EXPEND. ABROAD	677	1082	59.9	634	946	49.3	43	136	215.2
TOTAL COMPANY CAPITAL EXPEND.	10453	11971	14.5	6844	7293	6.6	3609	4677	29.6
	- INTEGRATEDS & REFINERS -			– JUNIOR O&G PRODUCERS –			– SENIOR O&G PRODUCERS –		
EXPLORATION	1362	1245	-8.6	1281	1378	7.6	2335	2286	-2.1
DEVELOPMENT	228	325	42.7	485	534	10.3	413	658	59.6
PRODUCTION	372	586	57.5	383	434	13.4	511	679	33.0
OIL SANDS	434	754	73.8	11	84	--	140	293	108.9
TOTAL UPSTREAM	2395	2910	21.5	2160	2431	12.6	3399	3916	15.2
TOTAL DOWNSTREAM	863	758	-12.2	9	21	125.3	183	162	-11.1
URANIUM	4	0	-86.8	5	0	-100.0	0	0	--
COAL	20	61	197.7	0	1	264.5	120	17	-85.6
ALL OTHERS	174	243	39.4	228	185	-18.6	217	183	-15.8
TOTAL CAPITAL EXPEND.IN CANADA	3457	3972	14.9	2401	2638	9.8	3918	4279	9.2
TOTAL CAPITAL EXPEND. ABROAD	48	59	22.8	439	547	24.5	189	476	151.2
TOTAL COMPANY CAPITAL EXPEND.	3505	4031	15.0	2840	3185	12.1	4108	4755	15.7

SCHEDULE 6

BALANCE SHEET

	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
INVENTORIES	6995	6067	-13.3	3082	2561	-16.9	3912	3506	-10.4
ACCOUNTS RECEIVABLE	10095	10680	5.8	4810	5317	10.5	5285	5363	1.5
OTHER CURRENT ASSETS	6685	6471	-3.2	3287	3217	-2.1	3398	3254	-4.2
TOTAL CURRENT ASSETS	23775	23217	-2.3	11179	11094	-0.8	12596	12123	-3.8
NET FIXED ASSETS	61022	63845	4.6	39650	40113	1.2	21373	23732	11.0
OTHER LONG-TERM ASSETS	7956	9296	16.8	5195	6578	26.6	2761	2719	-1.5
TOTAL ASSETS	92754	96358	3.9	56024	57784	3.1	36730	38574	5.0
ACCOUNTS PAYABLE	9068	9676	6.7	4890	5356	9.5	4178	4321	3.4
OTHER CURRENT LIABILITIES	5530	5000	-9.6	3192	3120	-2.3	2338	1881	-19.6
TOTAL CURRENT LIABILITIES	14597	14677	0.5	8082	8475	4.9	6516	6201	-4.8
LONG-TERM DEBT	20283	22652	11.7	15426	17742	15.0	4857	4910	1.1
PREPAYMENT FOR DEFERRED PROD.	2518	2276	-9.6	1329	1216	-8.5	1189	1060	-10.8
ACCUM. DEFERRED INCOME TAXES	11975	12845	7.3	6784	7189	6.0	5191	5656	8.9
OTHER LONG-TERM LIABILITIES	5311	3365	-36.6	4527	2473	-45.4	784	891	13.7
EQUITY: COMMON SHARES	11644	12438	6.8	8192	8825	7.7	3452	3612	4.6
PREFERRED SHARES	4491	5114	13.9	3759	4319	14.9	732	795	8.7
RETAINED EARNINGS	17868	19010	6.4	5527	5333	-3.5	12341	13677	10.8
OTHER EQUITY	4067	3983	-2.1	2400	2211	-7.9	1668	1772	6.3
TOTAL EQUITY	38070	40545	6.5	19878	20689	4.1	18192	19856	9.1
TOTAL LIAB, DEF TAXES & EQUITY	92754	96358	3.9	56024	57784	3.1	36730	38574	5.0
WORKING CAPITAL	9178	8541	-6.9	3098	2619	-15.5	6080	5922	-2.6
AMT OF ACC DEPR., DEPL. & AMO.	19563	23676	21.0	10871	13765	26.6	8692	9911	14.0

	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
INVENTORIES	5377	5176	-3.7	140	150	7.0	1478	741	-49.9
ACCOUNTS RECEIVABLE	4810	5310	10.4	1289	1424	10.5	3996	3945	-1.3
OTHER CURRENT ASSETS	2184	1714	-21.5	1066	1009	-5.3	3436	3748	9.1
TOTAL CURRENT ASSETS	12371	12201	-1.4	2494	2582	3.5	8910	8434	-5.3
NET FIXED ASSETS	21648	22707	4.9	15566	16794	7.9	23808	24344	2.3
OTHER LONG-TERM ASSETS	2291	1923	-16.1	1840	1987	8.0	3825	5386	40.8
TOTAL ASSETS	36310	36831	1.4	19900	21364	7.4	36543	38164	4.4
ACCOUNTS PAYABLE	4541	5170	13.9	1090	1378	26.4	3436	3128	-9.0
OTHER CURRENT LIABILITIES	2449	2038	-16.8	1140	1271	11.4	1941	1691	-12.8
TOTAL CURRENT LIABILITIES	6990	7208	3.1	2230	2649	18.8	5377	4819	-10.4
LONG-TERM DEBT	3415	3584	5.0	8049	8172	1.5	8819	10896	23.6
PREPAYMENT FOR DEFERRED PROD.	511	452	-11.6	620	587	-5.3	1387	1237	-10.8
ACCUM. DEFERRED INCOME TAXES	5440	5342	-1.8	1894	2245	18.5	4641	5257	13.3
OTHER LONG-TERM LIABILITIES	2240	1925	-14.0	442	814	83.9	2629	626	-76.2
EQUITY: COMMON SHARES	5838	6290	7.8	3316	3484	5.1	2490	2663	7.0
PREFERRED SHARES	1780	1999	12.4	1386	1613	16.4	1326	1502	13.3
RETAINED EARNINGS	9343	9269	-0.8	529	547	3.4	7996	9194	15.0
OTHER EQUITY	755	761	0.8	1434	1254	-12.6	1879	1968	4.8
TOTAL EQUITY	17715	18319	3.4	6665	6898	3.5	13690	15328	12.0
TOTAL LIAB, DEF TAXES & EQUITY	36310	36831	1.4	19900	21364	7.4	36543	38164	4.4
WORKING CAPITAL	5381	4993	-7.2	264	-67	--	3533	3615	2.3
AMT OF ACC DEPR., DEPL. & AMO.	7556	9571	26.7	3715	4767	28.3	8292	9338	12.6

SCHEDULE 7

VOLUME AND VALUE OF PRODUCTION

BY PROVINCE

	ALBERTA			BRITISH COLUMBIA			SASKATCHEWAN		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
VOLUME (OIL EQUIVALENT)	('000 M^3)		(%)	('000 M^3)		(%)	('000 M^3)		(%)
CONV. CRUDE - NORP	19452.9	21340.7	9.7	699.8	741.6	6.0	5241.6	5707.8	8.9
CONV. CRUDE - OTHER	37007.7	31687.1	-14.4	1206.2	1344.4	11.5	3963.9	3753.4	-5.3
CONVENTIONAL CRUDE OIL	56460.6	53027.8	-6.1	1906.0	2086.1	9.4	9205.5	9461.2	2.8
OIL SANDS	9087.2	11959.7	31.6	0.0	0.0	--	14.6	13.4	-8.2
MARKETABLE NATURAL GAS	53714.5	56877.6	5.9	5563.8	5816.5	4.5	1093.6	1157.2	5.8
GAS PLANT LIQUIDS	12261.8	12056.7	-1.7	47.5	82.7	74.3	60.4	4.3	-92.8
TOTAL - VOLUME	131524.2	133921.8	1.8	7517.3	7985.3	6.2	10374.1	10636.1	2.5
VALUE	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
CONV. CRUDE - NORP	4701.2	5017.2	6.7	162.8	178.1	9.4	1095.5	1208.1	10.3
CONV. CRUDE - OTHER	6952.4	6508.6	-6.4	220.9	278.4	26.0	712.6	743.1	4.3
CONVENTIONAL CRUDE OIL	11653.6	11525.9	-1.1	383.7	456.5	19.0	1808.1	1951.1	7.9
OIL SANDS	2228.3	2839.8	27.4	0.0	0.0	--	1.8	2.5	37.5
MARKETABLE NATURAL GAS	5725.5	5653.1	-1.3	470.1	473.0	0.6	63.2	79.3	25.5
GAS PLANT LIQUIDS	2210.5	2261.3	2.3	7.3	14.1	92.6	11.3	1.0	-91.5
TOTAL - VALUE	21817.9	22280.1	2.1	861.2	943.6	9.6	1884.4	2033.9	7.9

BY COMPANY GROUP

	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
VOLUME (OIL EQUIVALENT)	('000 M^3)		(%)	('000 M^3)		(%)	('000 M^3)		(%)
CONV. CRUDE - NORP	25716.4	29132.6	13.3	13130.3	14008.7	6.7	12586.2	15123.9	20.2
CONV. CRUDE - OTHER	42715.0	37207.6	-12.9	16400.5	15250.6	-7.0	26314.5	21957.0	-16.6
CONVENTIONAL CRUDE OIL	68431.4	66340.3	-3.1	29530.7	29259.4	-0.9	38900.7	37080.9	-4.7
OIL SANDS	9101.8	11973.1	31.5	3207.6	4745.3	47.9	5894.2	7227.8	22.6
MARKETABLE NATURAL GAS	60713.2	64308.5	5.9	34182.0	36131.2	5.7	26531.2	28177.3	6.2
GAS PLANT LIQUIDS	12374.3	12148.7	-1.8	6932.4	7098.9	2.4	5441.9	5049.8	-7.2
TOTAL - VOLUME	150620.7	154770.5	2.8	73852.7	77234.8	4.6	76767.9	77535.7	1.0
VALUE	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
CONV. CRUDE - NORP	6039.8	6665.2	10.4	2994.2	3143.5	5.0	3045.7	3521.7	15.6
CONV. CRUDE - OTHER	7970.6	7617.8	-4.4	3064.5	3128.6	2.1	4906.0	4489.2	-8.5
CONVENTIONAL CRUDE OIL	14010.4	14283.0	1.9	6058.7	6272.1	3.5	7951.7	8010.9	0.7
OIL SANDS	2230.1	2842.3	27.5	806.9	1162.6	44.1	1423.2	1679.7	18.0
MARKETABLE NATURAL GAS	6299.2	6248.6	-0.8	3520.4	3495.5	-0.7	2778.8	2753.1	-0.9
GAS PLANT LIQUIDS	2229.9	2277.5	2.1	1215.5	1335.7	9.9	1014.4	941.8	-7.2
TOTAL - VALUE	24769.6	25651.4	3.6	11601.5	12265.9	5.7	13168.1	13385.5	1.7

	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
	1984	1985	CHANGE	1984	1985	CHANGE	1984	1985	CHANGE
VOLUME (OIL EQUIVALENT)	('000 M^3)		(%)	('000 M^3)		(%)	('000 M^3)		(%)
CONV. CRUDE - NORP	7673.5	9631.6	25.5	6754.5	6322.0	-6.4	11288.5	13179.1	16.7
CONV. CRUDE - OTHER	16504.6	13517.0	-18.1	4587.7	4859.3	5.9	21622.7	18831.3	-12.9
CONVENTIONAL CRUDE OIL	24178.0	23148.6	-4.3	11342.2	11181.2	-1.4	32911.2	32010.4	-2.7
OIL SANDS	5992.0	7284.1	21.6	170.0	172.8	1.6	2939.8	4516.2	53.6
MARKETABLE NATURAL GAS	13612.9	14429.5	6.0	16781.5	17465.3	4.1	30318.8	32413.7	6.9
GAS PLANT LIQUIDS	4909.8	4635.8	-5.6	715.9	788.7	10.2	6748.5	6724.2	-0.4
TOTAL - VOLUME	48692.8	49498.0	1.7	29009.6	29608.0	2.1	72918.3	75664.5	3.8
VALUE	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
CONV. CRUDE - NORP	1799.1	2133.3	18.6	1564.6	1461.7	-6.6	2676.2	3070.2	14.7
CONV. CRUDE - OTHER	3089.3	2749.5	-11.0	858.9	938.6	9.3	4022.3	3929.7	-2.3
CONVENTIONAL CRUDE OIL	4688.4	4882.9	-0.1	2423.5	2400.3	-1.0	6698.4	6999.9	4.5
OIL SANDS	1442.4	1703.8	18.1	35.3	39.0	10.8	752.5	1099.5	46.1
MARKETABLE NATURAL GAS	1410.5	1403.6	-0.5	1700.1	1689.5	-0.6	3188.5	3155.4	-1.0
GAS PLANT LIQUIDS	852.7	817.3	-4.2	136.6	150.8	10.4	1240.6	1309.4	5.5
TOTAL - VALUE	8594.0	8807.5	2.5	4295.5	4279.7	-0.4	11880.0	12564.2	5.8

SCHEDULE 8

UPSTREAM OPERATING COSTS AND ROYALTIES

BY PROVINCE

	ALBERTA			BRITISH COLUMBIA			SASKATCHEWAN		
	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
FIELD, WELL & GATH. OPERATIONS	1527.5	1732.6	13.4	85.9	112.3	30.7	282.6	308.2	9.1
NATURAL GAS PROCESSING PLANTS	427.4	435.6	1.9	8.6	3.9	-54.4	17.9	17.3	-3.2
OIL SANDS	1015.2	1142.2	12.5	0.0	0.0	--	0.0	1.9	--
TAXES (EXCLUDING INCOME TAXES)	97.4	124.1	27.4	5.7	4.0	-30.5	13.6	10.3	-24.1
OPERATING OVERHEAD	700.6	759.7	8.4	19.2	18.4	-3.7	62.5	70.6	13.1
TOTAL OPERATING COST	3768.1	4194.2	11.3	119.4	138.6	16.1	376.5	408.4	8.5
FEDERAL CROWN ROYALTIES	0.0	0.0	--	0.0	0.0	--	0.0	0.0	--
PROVINCIAL ROYALTIES & TAXES	4699.7	4635.4	-1.4	213.2	185.8	-12.8	408.5	412.5	1.0
NON-CROWN ROYALTIES & OTHER	978.3	939.4	-4.0	13.4	17.2	27.7	85.9	79.3	-7.7
TOTAL ROYALTIES	5677.9	5574.8	-1.8	226.6	203.0	-10.4	494.5	491.8	-0.5

BY COMPANY GROUP

	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
FIELD, WELL & GATH. OPERATIONS	1930.7	2202.4	14.1	976.5	1093.1	11.9	954.3	1109.3	16.2
NATURAL GAS PROCESSING PLANTS	475.7	477.7	0.4	269.4	281.1	4.3	206.3	196.6	-4.7
OIL SANDS	1015.2	1144.1	12.7	454.4	479.9	5.6	560.8	664.1	18.4
TAXES (EXCLUDING INCOME TAXES)	117.6	139.1	18.3	55.7	58.3	4.7	61.9	80.9	30.6
OPERATING OVERHEAD	794.1	878.1	10.6	324.1	362.0	11.7	470.0	516.1	9.8
TOTAL OPERATING COST	4333.3	4841.4	11.7	2080.0	2274.4	9.3	2253.3	2567.0	13.9
FEDERAL CROWN ROYALTIES	1.7	9.1	--	0.0	1.0	--	1.7	8.2	371.6
PROVINCIAL ROYALTIES & TAXES	5339.3	5251.4	-1.6	2218.1	2265.0	2.1	3121.2	2986.4	-4.3
NON-CROWN ROYALTIES & OTHER	1098.5	1056.2	-3.8	429.0	443.5	3.4	669.4	612.7	-8.5
TOTAL ROYALTIES	6439.5	6316.7	-1.9	2647.1	2709.5	2.4	3792.4	3607.2	-4.9

	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)	1984 ($ MILLIONS)	1985	CHANGE (%)
FIELD, WELL & GATH. OPERATIONS	505.6	673.4	33.2	504.7	476.2	-5.7	920.4	1052.8	14.4
NATURAL GAS PROCESSING PLANTS	109.8	128.1	16.6	73.1	61.1	-16.5	292.7	288.6	-1.4
OIL SANDS	570.0	672.6	18.0	14.6	17.6	20.4	430.6	453.8	5.4
TAXES (EXCLUDING INCOME TAXES)	53.3	76.0	42.5	21.3	17.9	-15.9	42.9	45.2	5.3
OPERATING OVERHEAD	319.3	347.4	8.8	94.3	128.1	35.9	380.5	402.6	5.8
TOTAL OPERATING COST	1558.1	1897.5	21.8	708.0	700.9	-1.0	2067.2	2243.0	8.5
FEDERAL CROWN ROYALTIES	0.6	7.3	--	0.0	0.0	--	1.1	1.9	64.7
PROVINCIAL ROYALTIES & TAXES	1795.3	1696.8	-5.5	869.5	833.6	-4.1	2674.6	2721.0	1.7
NON-CROWN ROYALTIES & OTHER	475.5	456.9	-3.9	247.0	245.0	-0.8	376.0	354.2	-5.8
TOTAL ROYALTIES	2271.3	2161.0	-4.9	1116.5	1078.6	-3.4	3051.7	3077.1	0.8

SCHEDULE 9

INCOME AND EXPENSE STATEMENT: 1981-1985

	UPSTREAM						DOWNSTREAM					
	1981	1982	1983	1984	1985	GROWTH RATE	1981	1982	1983	1984	1985	GROWTH RATE
	($ MILLIONS)						($ MILLIONS)					
TOTAL REVENUES	17450	21231	24174	26442	27683	12.2	33786	35142	33788	31870	34021	0.2
PGRT & NGGLT & IORT	976	1949	2033	2229	2019	19.9	0	0	0	0	0	--
ROYALTIES	5000	5615	6102	6413	6269	5.8	1837	1855	1777	1935	2359	6.5
TOTAL REV. AFTER ROYALTIES	11474	13667	16040	17800	19395	14.0	31949	33287	32010	29935	31662	-0.2
OPERATING, INTEREST & OTHER	4756	5996	6056	6511	6949	9.9	29090	32288	31684	28831	30414	1.1
E&D CHARGED TO OPER.	1463	1036	859	781	910	-11.2	1	0	0	0	0	--
DEPRECIATION	500	543	689	724	836	13.7	429	449	572	612	686	12.5
DEPLETION	543	819	1090	1353	1590	30.8	0	0	0	0	0	--
WRITE-OFFS, AMORT.	291	418	1045	610	483	13.5	27	32	61	30	170	59.0
NON-CASH CHARGES & EDP	2796	2815	3683	3468	3819	8.1	456	480	634	642	856	17.0
INCOME BEFORE TAXES	3923	4857	6300	7821	8627	21.8	2403	519	-307	461	391	-36.5
CURRENT INCOME TAX	1435	1859	2626	2921	3061	20.9	826	-246	-444	5	152	-34.6
INC. AFTER CURR. INC. TAX	2488	2998	3675	4899	5566	22.3	1577	765	137	456	240	-37.6
DEFERRED INCOME TAX	812	1032	1221	1801	1716	20.6	270	413	213	86	-116	--
NET INCOME AFTER TAXES	1675	1966	2453	3098	3850	23.1	1307	352	-76	371	356	-27.7
CASH FLOW	5284	5813	7358	8368	9385	15.4	2033	1246	770	1098	1096	-14.3

	OTHER AND FOREIGN OPERATIONS						TOTAL OPERATIONS					
	1981	1982	1983	1984	1985	GROWTH RATE	1981	1982	1983	1984	1985	GROWTH RATE
	($ MILLIONS)						($ MILLIONS)					
TOTAL REVENUES	5166	4695	4675	4790	4355	-4.2	56402	61067	62637	63101	66059	4.0
PGRT & NGGLT & IORT	0	0	0	0	0	--	976	1949	2033	2229	2019	19.9
ROYALTIES	98	161	76	99	173	15.2	6935	7630	7955	8447	8801	6.1
TOTAL REV. AFTER ROYALTIES	5068	4534	4599	4692	4182	-4.7	48492	51488	52649	52426	55239	3.3
OPERATING, INTEREST & OTHER	4122	4230	4033	3673	3416	-4.6	37968	42513	41772	39015	40779	1.8
E&D CHARGED TO OPER.	203	93	63	58	68	-24.1	1667	1128	922	840	978	-12.5
DEPRECIATION	232	311	320	373	276	4.4	1160	1302	1582	1709	1797	11.6
DEPLETION	185	222	253	296	383	20.0	728	1041	1342	1648	1974	28.3
WRITE-OFFS, AMORT.	-50	445	831	127	196	--	268	895	1938	768	849	33.4
NON-CASH CHARGES & EDP	571	1071	1467	854	923	12.8	3823	4367	5784	4965	5598	10.0
INCOME BEFORE TAXES	375	-767	-902	165	-157	--	6701	4608	5092	8447	8862	7.2
CURRENT INCOME TAX	-66	-14	20	-66	-65	--	2195	1598	2202	2860	3147	9.4
INC. AFTER CURR. INC. TAX	441	-753	-921	231	-91	--	4506	3010	2890	5586	5715	6.1
DEFERRED INCOME TAX	187	-116	-30	128	61	-24.4	1269	1330	1404	2015	1661	6.9
NET INCOME AFTER TAXES	254	-637	-891	103	-152	--	3236	1680	1486	3571	4054	5.8
CASH FLOW	1012	318	546	1085	832	-4.8	8329	7377	8674	10531	11313	8.0

SCHEDULE 10

SOURCES AND USES OF FUNDS: 1981-1985

	1981	1982	1983	1984	1985	GROWTH RATE
			($ MILLIONS)			
CASH GENERATED BY OPERATIONS	8329	7377	8674	10551	11313	8.0
NET INCREASE IN LONG-TERM DEBT	9791	3698	1844	1210	2052	-32.3
ISSUE OF SHARES	2077	3208	2182	1758	1965	-1.4
GRANTS (PIP & OTHERS)	796	1436	1670	1827	1654	20.1
ALL OTHER SOURCES	1187	3024	2993	5165	4265	37.7
WORKING CAPITAL DECREASE	1202	4343	1520	909	2770	23.2
TOTAL SOURCES OF FUNDS	23382	23087	18884	21419	24019	0.7
UPSTREAM CAPITAL EXPEND.	6831	6433	6813	7821	9110	7.5
DOWNSTREAM CAPITAL EXPEND.	2021	2501	1704	1055	941	-17.4
OTHER CDN. CAPITAL EXPEND.	1300	1574	1103	763	687	-14.8
TOTAL CAPITAL EXP. IN CANADA	10152	10508	9620	9639	10738	1.4
CAPITAL EXPENDITURE IN U.S.A.	1057	582	328	302	665	-11.0
OTHER FOREIGN CAPITAL EXPEND.	744	568	443	360	401	-14.3
TOTAL FOREIGN CAPITAL EXPEND.	1801	1150	770	662	1065	-12.3
TOTAL COMPANY CAPITAL EXPEND.	11953	11658	10390	10301	11803	-0.3
DIVIDENDS	1178	1131	1255	1347	1777	10.8
REDUCTION OF EQUITY	385	704	568	164	555	9.6
TOTAL DIVID. & EQUITY REDUCT.	1563	1835	1823	1511	2332	10.5
NET DECREASE IN LONG-TERM DEBT	658	3611	1545	2547	1864	29.7
ALL OTHER APPLICATIONS	6915	4717	3102	2564	5875	-4.0
WORKING CAPITAL INCREASE	2293	1265	2024	4496	2144	-1.7
TOTAL APPLICATIONS OF FUNDS	23382	23087	18884	21419	24019	0.7

GLOSSARY OF TERMS

Acquisitions--the acquisition of shares of other petroleum companies or the purchase of assets from such companies. Capital outlays for these purposes are included under the category 'All Other Uses of Funds' in monitoring reports. (Acquisitions)

All Other Sources of Funds--proceeds from the sale of assets or long-term investments and pre-payment received for future production. Included here would also be a reclassification of sizeable debt that occurred in 1984. (Autres sources de fonds)

All Other Uses of Funds--includes applications such as acquisitions, purchases of used machinery and equipment, and long-term investments. (Autres affectations de fonds)

Amortization--is the charge to expense over time of assets, other than depreciation, depletion, and exploration and development expensed to current operations. It also includes here gains or losses on disposal of assets and write-downs of assets. (Amortissement)

Canada Lands--areas of Canada outside provincial boundaries. (Terres du Canada)

Canadian Control--in general a company is Canadian-controlled when 50% or more of its voting shares are held by Canadian residents either directly or indirectly. In a few exceptional cases, when a significant block of shares is held by Canadian residents and the remaining shares are widely held, a company may be effectively Canadian-controlled even though more than 50% of the voting shares are held by non-residents. (Contrôle canadien)

Canadian Ownership--the proportion of the total voting shares of a company held, either directly or indirectly (through other corporations), by Canadian residents. (Participation canadienne)

Capital Employed--the net book value of total assets, less current liabilities. (Capital utilisé)

Capital Expenditures--investments in new machinery, equipment, structures and resource properties, whether capitalized or charged directly to current operations, as well as intangibles (e.g. cost of leased equipment), capitalized interest and capitalized repair expenditures. (Dépenses de capital)

Current Income Tax--the portion of the provision for income taxes, both federal and provincial, pertaining to the reporting period and assumed to be currently due. (Impôt sur le revenu courant)

Debt/Equity Ratio--the ratio of long-term liabilities (over one year) to shareholders' equity (share capital plus retained earnings) at the end of a period. Depending upon their terms and conditions, preferred shares may be classified as either debt or equity (see 'long-term debt'). (Rapport d'endettement)

Deferred Income Taxes--taxes accrued and reflected as an expense in the income statement, but not payable in the financial reporting period. Income taxes are deferred, for example, when companies write off capital assets (using capital cost allowances) for income tax purposes at rates that exceed those employed in preparing their financial reports. (Impôt reporté)

Depletion--the amount charged to expense in the company's financial statements which relates to depletable assets that have been capitalized. This is not the earned depletion allowance calculated for income tax purposes. (Epuisement)

Depreciation--the amount charged to expense which relates to depreciable assets that have been capitalized. This is not the amount of capital cost allowance that is used to compute depreciation for income tax purposes. (Dépréciation)

Development Expenditures--includes drilling and well completion costs in an area of already proven oil or natural gas reserves, expenditures on field gathering and separation systems, and the cost of acquiring proven reserves. (Dépenses de mise en valeur)

Downstream Segment--includes refining, marketing, transportation and petrochemical operations. (Secteur aval)

Energy Mining--capital expenditures associated with uranium and coal mining (excludes oil sands mining). (Extraction des ressources énergétiques)

Equity--the book value of shareholders' paid-up capital, contributed surplus and retained earnings. (Avoir propre)

Exploration Costs--include all lease fees and land acquisition costs, geological and geophysical expenditures, and exploratory drilling costs whether capitalized or expensed. Exploratory drilling is generally defined as a well drilled outside a proven area, or within a proven area but to a previously untested zone, in order to determine whether oil or gas reserves exist. Also included are costs of dry wells, casing and other materials and equipment abandoned in place. (Frais d'exploration)

External Sources of Funds--funds obtained from sources other than internal cash flow. Long-term debt and equity are the main examples. (Sources externes de fonds)

Full Cost Accounting--an accounting method under which all costs incurred in prospecting for reserves and in acquiring, exploring and developing properties within cost centres are capitalized and charged to expense as the reserves deemed to be related to those costs are produced. Costs incurred include prospecting, leasing, acquisition, retention, exploration and development costs, and associated indirect costs (i.e. general and administrative costs). Operating costs are charged to expense as incurred. (Méthode de capitalisation du coût entier)

Incremental Oil Revenue Tax (IORT)/Incremental Resource Royalty Tax (IRRT)--the IORT was a federal tax imposed at a rate of 50% on incremental old oil revenues after a deduction for associated incremental royalties. Incremental revenue is the difference between the actual revenue received from oil production and the revenue that would have been received had the NEP price schedule prevailed. Incremental royalties, other than Crown royalties, were subject to the IRRT, also at a 50% rate. Income subject to the IORT or the IRRT was not subject to income tax. Both taxes were suspended on June 1, 1982 and have been removed as a result of the agreement reached by the Western Accord. (Taxe sur les recettes pétrolières supplémentaires/Taxe sur les redevances supplémentaires afférentes aux ressources)

Integrated Companies--companies that individually have significant revenues in both the upstream and downstream segments. Each of these companies has sizeable refined product, marketing and distribution operations. (Sociétés intégrées)

Internal Cash Flow--includes net income after tax plus exploration and development expenditures expensed in the current period, depreciation, depletion, amortization and deferred income taxes. (Ressources d'autofinancement)

Junior Producers--companies that are predominantly exploration and production oriented and that individually generate less than 1% of industry upstream revenues. (Petits producteurs)

Long-term Debt--debt that has a maturity date greater than one year. Preferred shares may be treated as long-term debt when they are redeemable for a fixed amount without conversion privileges or voting rights. (Dette à long terme)

Natural Gas and Gas Liquids Tax (NGGLT)--a federal excise tax imposed on marketable pipeline gas and natural gas liquids (NGLs). Marketable pipeline gas includes gas used in a processing or reprocessing plant, but excludes volumes reinjected into reservoirs. NGLs include ethanes, propanes, butanes or any mixtures thereof produced from gas at a processing or reprocessing plant. NGGLT is among the taxes whose elimination was agreed to in the Western Accord. (Taxe sur le gaz naturel et les liquides de gaz naturel)

New Oil Reference Price (NORP)--the price that was applied to all conventional oil from pools discovered after 1973, incremental oil recovered by the use of an enhanced recovery technique (other than waterflooding), incremental oil from any new or expanded waterflood project commencing after June 30, 1983, oil from infill wells drilled in a pre-NORP oil entity after June 30, 1983, synthetic crude oil, crude oil from Canada Lands, oil from wells in Saskatchewan producing 10 barrels a day or less and all heavy oil in Saskatchewan. The NORP was subject to a ceiling of 100% of the international price. Effective June 1, 1985, the Western Accord allows oil producers to negotiate sales contracts directly with buyers and the market, open to international forces of supply and demand, to determine both the level of prices and price differentials between oils. (Prix de référence du nouveau pétrole)

Non-cash Charges--items expensed in the reporting period that do not require an actual financial outlay in that period, such as depreciation, depletion and amortization. (Frais non monétaires)

Non-conventional Heavy Oil--deposits of density usually greater than 934 kg/m^3 that are for the most part recoverable through enhanced recovery methods. Canadian deposits of heavy oil are typically in the range of 935 to 985 kg/m^3. Main centres are Cold Lake and Lloydminster. (Pétrole lourd non classique)

Oil Export Charge--exports of crude oil and equivalent hydrocarbons and oil products such as motor gasoline, middle distillate, heavy fuel oil and partially processed oil were subject to an export charge. Since November 1, 1980, the producing provinces received 50% of all revenues accruing from export charges on crude oil and equivalent hydrocarbons. This charge has been eliminated under the Western Accord. (Redevances d'exportation sur le pétrole)

Oil Sands--crude bitumen resources from deposits that are generally solid unless heated and are of a density usually greater than 985 kg/m^3. Athabasca, Peace River, Wabasca, and Buffalo Head Hills are the main Canadian resource areas. (Sables pétrolifères)

Other Canadian Operations--include drilling services, coal and uranium mining, metal mining, and other non-petroleum related activities. In addition, corporate activities may be included here. (Activités autres au Canada)

Petroleum Compensation Charge (PCC)--a levy imposed on refiners by the Government of Canada. Funds received from this levy were used to finance oil import compensation, to pay higher prices for production qualifying for the New Oil Reference Price (NORP) and to pay for deliveries of Canadian crude oil to Atlantic Canada and for certain exchanges of crude oil between Canada and the United States. Deregulation of oil pricing under the Western Accord eliminates the need for a compensation mechanism. (Redevances d'indemnisation pétrolière)

Petroleum Incentives Program (PIP)--provides direct incentive payments to enterprises conducting exploration and development activities in Canada. The level of incentive varies according to the area of activity and is higher for enterprises that are Canadian controlled and have specified levels of Canadian ownership as determined under the Canadian Ownership and Control Determination Act. The Government of Alberta administers and pays incentives for activities within Alberta and the Petroleum Incentives Administation of the Government of Canada funds and administers the program elsewhere in Canada. Fiscal measures agreed to under the Western Accord include the termination of the PIP program on March 31, 1986 for all activities formerly eligible to receive grants other than exploration expenses incurred in drilling frontier wells required to satisfy commitments under existing Exploration Agreements on Canada Lands. These eligible frontier wells will continue to qualify for PIP during a further grandfathering period which will extend to no later than December 31, 1987. (Programme d'encouragement du secteur pétrolier)

Petroleum and Gas Revenue Tax (PGRT)--a 16% tax on production revenue net of operating costs, non-Crown royalties and, where Crown royalties or taxes based on production are payable, a 25% resource allowance. Qualifying tertiary recovery projects also reduce the tax base by eligible capital costs incurred after 1982 to the extent of pool taxable revenue. The existing $500,000 small producers' credit is to be increased to $2 million and the deduction for individuals of $10,000 of resource income from the PGRT is to be increased to $40,000. Companies in a non-profit position will be allowed to offset unused new exploration and development expenditures against the PGRT. The Western Accord phases PGRT out of existence by January 1, 1989. In the interim, the PGRT remains non-deductible for income tax purposes. (Taxe sur les recettes pétrolières et gazières)

Production Expenditures--includes all expenditures relating to the production of crude oil and natural gas. Expenditures on natural gas processing plants are included. (Dépenses de production)

Senior Producers--companies that are predominantly exploration and production oriented and that individually have more than 1% of industry upstream revenues. (Grands producteurs)

Successful Efforts Accounting--an accounting method by which only costs resulting directly in identifiable future benefits through discovery, acquisition or development of reserves are capitalized. Costs that do not provide identifiable future benefits are expensed as incurred, or are written off when the properties are determined to be non-productive. Such costs include those relating to geological and geophysical studies, retention of undeveloped properties, and non-productive exploration and development efforts. (Méthode de capitalisation du coût de la recherche fructueuse)

Upstream Segment--activities and operations related to the search for, and development, production, extraction and recovery of crude oil, natural gas, natural gas liquids and sulphur, as well as the production of synthetic oil. (Secteur en amont)

Working Capital--current assets (cash, short-term investments, accounts receivable, inventories) less current liabilities (accounts payable, debts and obligations maturing in less than one year). (Fonds de roulement)

INCOME TAX-RELATED DEFINITIONS

Capital Cost Allowance--is the income tax equivalent of accounting depreciation. A taxpayer is permitted to deduct certain allowances in respect of the capital cost of depreciable property to the extent prescribed by the Income Tax Regulations (ITR). (Allocations du coût en capital)

Some of the more relevant classes of Capital Cost Allowance for the oil and gas, and mining industries are:

Class 10--includes assets such as oil and gas well equipment, drilling rigs (except offshore drilling vessels), certain geophysical equipment, heavy oil upgrading equipment, and certain tangible assets acquired in connection with oil and gas exploration and development not included as a Canadian Exploration Expense or a Canadian Development Expense (see below) (ref: Schedule II of the ITR). (Catégorie 10)

Class 28--includes assets used in the gaining or producing of income from new mines or major expansions of mines (including oil sands deposits) (ref: Schedule II of the ITR). (Catégorie 28)

Class 29--includes assets manufactured or acquired by the taxpayer and used directly or indirectly by the taxpayer in Canada primarily in the manufacturing or processing of goods for sale or lease (ref: Schedule II of the ITR). (Catégorie 29)

Depletion:

Earned Depletion Allowance--is a deduction from income not exceeding the lesser of 25% of resource profits for earned depletion purposes and the earned depletion base (ref: ITR 1201). (Déduction pour épuisement gagné)

Earned Depletion Base--is an amount, net of prior years earned depletion allowances claimed, equal to 33-1/3% of qualifying prescribed expenditures. Qualifying prescribed expenditures include expenditures on integrated oil sands projects, enhanced recovery projects and heavy crude oil upgraders. For 1984, the additions to the earned depletion base also include 10% of Canadian Exploration Expenses incurred on Canada Lands (ref: ITR 1205). (Base de la déduction pour épuisement gagné)

Mining Exploration Depletion Allowance--is a deduction from income not exceeding the lesser of 25% of income from any source and the mining exploration depletion base (ref: Draft ITR 1203(1)). (Déduction à l'égard d'épuisement pour exploration minière)

Mining Exploration Depletion Base--is an amount, net of prior year mining exploration depletion allowances claimed, equal to 33-1/3% of Canadian Exploration Expenses relating to mineral resources incurred after April 19, 1983 (ref: Draft ITR 1203(2)). (Base d'exploration minière pour épuisement)

PMA TERMS OF REFERENCE

A. Mandate of the Petroleum Monitoring Agency

The Petroleum Monitoring Agency (PMA) was established to provide public and private users:

- federal and provincial governments
- oil and gas companies
- financial institutions and other business enterprises

with a comprehensive and objective assessment of the financial performance of the petroleum industry in Canada. This is intended to ensure that the soundest possible foundation would be provided for public and private decision-making. This goal is accomplished by publishing semi-annual and annual surveys based on information received directly from oil and gas companies doing business in Canada.

The Agency was created in August 1980 and currently derives its statutory authority from the Energy Monitoring Act.[1] To provide impartiality of reporting and maintain credibility among users, the PMA was established as a separate and independent Agency with its Chairman reporting directly to the Minister of Energy, Mines and Resources.

The Act, at subsection 5(1), sets out that energy enterprises shall file twice a year, returns providing data and information relating to:

(a) ownership and control,
(b) sources and application of funds,
(c) exploration for, development, production, processing, refining and marketing,
(d) cost and revenues and such other matters concerning each of its activities,
(e) deductions, credits, allowances and carry forwards provided under the Income Tax Act,
(f) the distribution and disposition of its revenues and profits,
(g) resources, reserves and properties,
(h) ownership or interest in any other enterprise, and
(i) research and development programs.

Energy enterprises are defined as individuals, corporations, partnerships, trusts or organizations engaged in the exploration for, development, refining and marketing of oil and gas commodities and having consolidated gross annual revenues, or assets in excess of ten million dollars. Regulations prescribe that gross revenues and assets be determined according to accounting standards set out in the Canadian Institute of Chartered Accountants Handbook. Currently only corporations are surveyed by the Agency. Each energy corporation is required to report on a consolidated basis on the activities of corporations it controls or owns.

---

[1] S.C. 1980-81-82-83, c. 112.

B. Sources of Data and Information

The data published in the Petroleum Monitoring Survey are aggregate data derived mainly from survey schedules prescribed by regulations.(1) Since part of the Agency's information gathering function falls into areas covered by Statistics Canada, a number of data sharing agreements were negotiated between the PMA and Statistics Canada under Section 11 of the Statistics Act. These agreements reduce the industry's response burden in relation to the Agency's overall information requirements. Information also flows from the PMA to Statistics Canada. Current data sharing arrangements relate to:

1. ownership and control of energy enterprises,
2. capital structure,
3. international flows of funds,
4. research and development expenditures,
5. quarterly corporate financial statistics, and
6. capital expenditures and operating costs.

The first five of these involve transmission of information to PMA; the last includes information on such subjects as exploration, development and production expenditures, and royalties from PMA to Statistics Canada.

C. Coverage of Data

Industry gross revenues covered by the PMA through aggregation of returns from 125 reporting enterprises account for 89% of upstream industry revenues as determined by Statistics Canada. The remaining 11% of industry revenues accrue to firms having revenues or assets less than the Agency's current reporting thresholds, but which are surveyed by Statistics Canada. The high degree of coverage of industry revenues and the inclusion of all but the smallest energy enterprises enable conclusions drawn from Agency aggregates to be applied to the industry as a whole. Degrees of coverage of other performance indicators are presented below.

COMPARISON OF PMA DATA
WITH 1985 INDUSTRY AGGREGATES

	Percentage of Industry Aggregates Covered (%)
UPSTREAM PRODUCTION REVENUES	89
UPSTREAM EXPENDITURES IN CANADA	89
PRODUCTION VOLUMES	
Crude Oil and Liquids (thousands m^3/day)	89
Marketable Natural Gas (millions m^3/day)	86
REFINED PRODUCT SALES VOLUMES	98

(1) Currently prescribed schedules are contained in regulation SOR/85-328.

D. Comparison of Survey Results - PMA vs. Statistics Canada

The petroleum industry's financial performance is regularly compared to that of other sectors of the economy using aggregate data from Statistics Canada. Net income and rates of return information provided in Chapters 1 to 3 of this report will differ slightly from the results shown in Chapter 4 and in Appendix A-14, based on Statistics Canada data.

Petroleum industry data from Statistics Canada, while covering a greater number of companies than the PMA survey, exclude government business enterprises as well as the foreign activities of Canadian petroleum companies. The PMA survey covers the global activities of petroleum companies operating in Canada, including Crown corporations, provided these companies meet the minimum requirements in terms of assets and revenues. In addition, though Statistics Canada may make adjustments to company reported data, the PMA reports only on the industry's activities as they are submitted. For example, in 1983, a write-down by one large Canadian-controlled company of assets of $1 billion was treated as 'extraordinary' by Statistics Canada, whereas the Agency accepted the activities as 'ordinary' i.e. as reported by the company.

Regarding rates of return, both agencies determine return on capital employed by adding back to net income the after-tax portion of interest on long-term debt. While the PMA produces this calculation for each company individually, using the statutory tax rate on that portion of interest expense which would increase net income, the calculation on Statistics Canada aggregate industry results must rely on the effective tax rate, i.e. current taxes as a percentage of net income before taxes.

Rates of return on equity as determined by this Agency may differ from Statistics Canada results because of adjustments to individual company data that the PMA may make. For example, in 1984 and 1985 a number of petroleum companies reported negative equity which in total amounted to about $1 billion. According to the PMA's methodology, negative equity is equated to zero to assure that the aggregate equity base is not unduly reduced, thereby overstating rates of return. This type of adjustment cannot be made for the aggregate Statistics Canada data.

E. Ownership and Control Determination

The Agency publishes annually information on the level of Canadian ownership and control of the oil and gas industry in Canada. The methodology and sources of information underlying these analyses are summarized below.

The Agency has adopted a definition of control based on whether Canadian or foreign shareholders have potential control over a reporting enterprise's overall operations. While control is generally based on ownership of 50% or more of voting shares it is possible for effective control to be exercised with a smaller ownership block where the majority of voting rights is widely diffused. Should the concentration of voting rights ownership be insufficient to determine control, the existence of options, key privately held shares, or interlocks of directors with related holding companies become germane to the assignment of control.

For purposes of determining the industry-wide level of ownership, that percentage of the relevant yardstick which represents the ownership of voting rights by non-residents is assigned to the foreign-owned category, while that of Canadian residents is assigned to the Canadian-owned category.

The most commonly used yardsticks are upstream or total petroleum-related revenues (upstream plus downstream). Ownership and control are generally measured on gross revenues recognizing that these best reflect economic activity and that they are a stable proxy for net economic benefits over time. For example, the deduction of royalties from gross petroleum revenues would have little or no impact on the relative distribution of revenue between Canadian and foreign owners.

Other measurement bases such as assets or capital employed do exist but suffer from the deficiencies of relying upon historical 'book' values rather than current market value, and of being subject to the different accounting techniques used in the petroleum industry such as the full cost and successful efforts methods.

In the case of control, all revenues of the controlled company are assigned to the appropriate control category. Thus, regardless of the percentage ownership of voting rights by non-residents, if the company is effectively controlled by non-residents, then for statistical purposes 100% of its revenues are assigned to the foreign-controlled sector. To illustrate, several integrated companies included in this report, though all foreign controlled, have varying degrees of Canadian ownership (up to 30%). However, 100% of their revenues are allocated to the foreign-controlled sector when measuring the level of foreign control of revenues.

The Agency obtains access to ownership and control information collected under the Corporations and Labour Unions Returns Act (CALURA) from those enterprises which report under the Energy Monitoring Act. CALURA requires detailed disclosure of ownership information from all owners of blocks of shares equal to or greater than 5% of total voting shares. Should a reporting energy enterprise fail to file a timely return under CALURA, Regulation SOR/85-328 amending regulations under the Energy Monitoring Act, authorizes the Agency to obtain the ownership and control information directly.

F. Inter-Period Comparability of Results

Canadian Petroleum Industry Monitoring Surveys present comparisons of the current reporting period's results with those of previous comparable periods. Such comparisons are sensitive to changes in the list of reporting companies defined as the 'industry', in its analytic groups, i.e. integrateds and refiners, and oil and gas producers, and in the control status of reporting enterprises. To permit valid inter-period comparisons, the Agency consistently fixes industry group membership and control according to the reported information for the current period, and imposes that membership and control on results for the prior reporting periods.

Lists of reporting enterprises (i.e. corporations with more than $10 million in assets or sales) are updated each reporting period. Newly qualifying enterprises are added to the industry aggregates and the respective group only when results for two comparable reporting periods are available. Occasionally, enterprises exit from the industry during the current period, by acquisition or wind-up. Prior period results for both the industry and the group presented in the current period's report will reflect the exit of the former reporting enterprise: the enterprise is excluded from the current and the prior period aggregates. Should the exit result from acquisition by a reporting enterprise, the acquired enterprise's prior period results are added to those of the acquiring enterprise regardless of whether the acquired enterprise was in the same analytic group as the acquisitor.

Divestitures or acquisitions by reporting enterprises during the current period may result in an enterprise satisfying the inclusion criteria of an analytic group other than that to which it has been assigned in the prior period's Monitoring Survey. For example, where an integrated group member divested itself of its downstream operations during the current period, it would be included in either the senior or junior producer group, depending upon the facts of the matter, for the current period and with that group's aggregate results for the corresponding prior period. It is important to note that all the divesting enterprise's prior period assets and revenues, regardless of the segment of operations, are transferred to the current period analytic group to establish prior period analytic group aggregates.

Similar adjustments to industry and analytic group aggregates are made in cases where ownership switches from Canadian to foreign or vice versa. The current period nationality of ownership determines that of the prior period for purposes of inter-period comparisons.

However, in that part of the annual Monitoring Survey dealing with ownership and control, the analysis takes into account the changes in the control of the reporting companies as they occur. A listing of reporting energy enterprises appears on the inside back cover.

Aberford Resources Ltd.
AGIP Canada Ltd.
Alberta Energy Company Ltd.
Alberta Oil Sands Equity
Altana Exploration Company
Amerada Minerals Corporation of Canada Ltd.
American Eagle Petroleums Ltd.
American Trading and Production Corporation
Amoco Canada Petroleum Company Ltd.
Anadarko Petroleum Of Canada Ltd.
Anderson Exploration Ltd.
Andex Oil Co. Ltd.
Atcor Resources Limited
AT&S Exploration Ltd.
Bamwell Of Canada, Limited
Bluesky Oil & Gas Ltd.
Bonanza Resources Ltd.
Bow Valley Industries Limited
BP Canada Inc.
Bralorne Resources Limited
Brinco Oil & Gas Limited
Canada Northwest Energy Limited
Canadian General Electric Company Limited
Canadian Hunter Exploration Ltd.
Canadian-Montana Gas Company Limited
Canadian Occidental Petroleum Ltd.
Canadian Roxy Petroleum Ltd.
Canadian Superior Oil Ltd.
Canadian Worldwide Energy Limited
Canterra Energy Ltd.
Carlyle Energy Ltd.
Champlin Canada Ltd.
* Chevron Canada Limited
Chevron Canada Resources Limited
Chevron Standard Limited
Chieftain Development Co. Ltd.
Columbia Gas Development Of Canada Ltd.
Conwest Exploration Company Limited
Cooperative Energy Development Corporation
Coseka Resources Limited
Czar Resources Ltd.
DeKalb Petroleum Corporation
Denison Mines Limited
Diamond Shamrock Exploration Of Canada, Ltd.
Dome Petroleum Limited
Drummond Oil & Gas Ltd.
Dynamar Energy Limited
Dynex Petroleum Ltd.
Encor Energy Corporation Ltd.
* Federated Co-operatives Limited
Forest Oil Corporation (Canada Division)
General American Oils, Ltd.
Geocrude Energy Inc.
Gulf Canada Corp.
Hamilton Brothers Canadian Gas Company
Harvard International Resources Ltd.
Home Oil Company Ltd.
* Husky Oil Ltd.
* Imperial Oil Limited
Inter-City Gas Corporation
Invemess Petroleum Ltd.
* Irving Oil Limited
J.M. Huber Corporation
Kerr-McGee Corporation
Koch Exploration Canada, Ltd.
LL&E Canada Ltd.
Maligne Resources Limited
Maynard Energy Inc.
Merland Explorations Limited
Mobil-G.C. Canada Ltd.
Mobil Oil Canada, Ltd.
* Mohawk Oil Co. Ltd.
Murphy Oil Company Ltd.
Norcen Energy Resources Limited
North Canadian Oils Limited
Northcor Energy Ltd.
Novalta Resources Ltd.
Nova Scotia Resources Limited
Numac Oil & Gas Ltd.
Oakwood Petroleums Ltd.
Ocelot Industries Ltd.
Omega Hydrocarbons Ltd.
Onexco Oil & Gas Ltd.
Page Petroleum Ltd.
Paloma Petroleum Ltd.
Panarctic Oils Ltd.
PanCanadian Petroleum Limited
Pembina Resources Limited
Pennzoil Petroleums Limited
* Petro-Canada Inc.
Petrorep (Canada) Ltd.
* Petrosar Limited
Placer CEGO Petroleum Ltd.
Precambrian Shield Resources Limited
Ranchmen's Resources Ltd.
Ranger Oil Limited
Renaissance Energy Ltd.
Roan Resources Limited
Saskatchewan Oil & Gas Corporation
Sceptre Resources Limited
* Shell Canada Limited
Shell Explorer Limited
SOQUIP
Star Oil & Gas Ltd.
Sulpetro Limited
* Suncor Inc.
TCPL Resources Ltd.
* Texaco Canada Inc.
Texas Pacific Oil Canada, Ltd.
Thomson-Jensen Energy
Total Petroleum (North America) Ltd.
Trans-Canada Resources Ltd.
Tricentrol Oils Limited
Trillium Exploration Corporation
Trilogy Resources Corporation
Tripet Resources Limited
* Turbo Resources Limited
* Ultramar Canada Inc.
Ultramar Oil and Gas Canada Limited
Unicorp Resources Ltd.
United Canso Oil & Gas Ltd.
Universal Explorations (83) Limited
Unocal Canada Ltd.
Voyager Energy Company
Wainoco Oil & Gas Limited
Westar Petroleum Ltd.
Westburne Petroleum & Minerals Ltd.
Westcoast Petroleum Ltd.
Western Decalta Petroleum (1977) Limited
Westmin Resources Limited

* Denotes companies included in group of 'Integrateds and Refiners'.
All other companies belong to the category of 'Oil and Gas Producers'.